Paper: MBA-301 **Strategic Analysis**

Lesson No. 1 **Author : Dr. Tejinder Sharma**

Introduction to Strategic Decision Making

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1.0 Introduction:

The concept of strategy is central to understanding the process of strategic management. The term strategy is derived from the Greek word *strategos*, which means generalship- actual direction of military force as distinct from the policy governing its deployment.

Therefore, the word strategy literally means the art of the general. In business parlance, there is no definite meaning assigned to strategy and it is often used loosely to mean a number of things. In the competitive times, the business managers have to understand the concept of strategy and master the art and science of translating it into the actual practice.

2.0 Lesson Objectives:

This chapter makes you familiar with the concepts of strategy, strategic planning process and strategic decision making.

3.0 Presentation of contents:

3.1 Introduction to Strategy:

Management is an art as well as science. Many of the concepts used in building management theory have been derived from practice. Unlike the pure sciences which have their foundation in experimental research, management studies draw upon the practical experiences of managers in defining concepts. Business policy is rooted in the practice of management and has passed through different phases before taking its shape in the present form of strategic management.

As early as 1960's, attempts have been made for a comprehensive analysis of interrelationships among environment, strategy and organizational structure. An early attempt was made by Chandler in 1962, who analysed the history of organizational change in 70 manufacturing firms in the US. While doing so, he defined strategy as; *the determination of the basic long-term goals and objectives of an enterprise and the adoption of the courses of action and the allocation of resources necessary for carrying out these goals.*

Another Harvard management guru, Kenneth Andrews, who developed the subject of business policy through the case study method, defined strategies as *the pattern of objectives, purpose, goals and the major policies and plans for achieving these goals stated in such a way so as to define what business the company is in or is to be and the kind of company it is or is to be.*

Igor Ansoff, a well known authority in the field of strategic management defines the strategy as *the common thread among the organisation's activities and product markets that defines the essential nature of business that the organization was or planned to be in future.*

Michael Porter of the Harvard Business School has made invaluable contributions to the development of the concept of strategy. His ideas on competitive advantage, the five-forces model, generic strategies and value chain are quite popular. He opines that the core of general management is strategy, which he elaborates as developing and communicating the company's unique position making tradeoffs and fit among activities.

Strategic position is based on customers' needs, customers' accessibility or the variety of company's products and services. A company's unique position relates to choosing activities in different ways. However a sustainable strategic position requires a trade-off when activities in different ways that firm performs are incompatible.

Synthesizing the above discussion, it can be observed that the concept of strategy encompasses the following characteristics:

i) A plan or course of action or a set of decision rules forming a pattern or creating a common thread.

ii) Pattern or common thread related to the organisation's activities which are derived from it policies, objectives and goals,

iii) Related to pursuing those activities which move an organization from its current position to a desired future state,

iv) Concerned with the resources necessary for implementing a plan or following a course of action and

v) Connected to the strategic positioning of a firm making trade-offs between its different activities and creating a fit among these activities.

3.2 Strategic Decision making:

Decision –making is most important function of any manager. Strategic decision making is the prominent task of the senior management. Both kinds of decision making are essentially the same. The difference lies in the levels at which they operate. While decision making pertains to all managerial functions, strategic decision-making largely relates to the responsibilities of the senior management.

Conventional Decision-making:

Most people agree that decision making is the process of selecting a course of action from among many alternatives. The process works somewhat like this:

- Objectives to be achieved are determined
- Alternatives ways of achieving the objectives are identified
- Each alternatives is evaluated in terms of its objectives-achieving ability
- The best alternative is chosen

The end result of above process is a decision or asset of decisions to be implemented. Such a process of decision-making is deceptively simple. In practice, decision-making is a highly complex phenomenon. The first set of problems encountered in decision-making is related to objective setting. Second, the identification of alternatives is a difficult task. How to test the objective-achieving ability to each alternatives is easier said than done, and lastly choosing the best alternative is a formidable task too.

In the process of strategic management the basic thrust of strategic decision making is to make a choice regarding the courses of action to adopt. Thus, most aspects of strategy formulation rest on the strategic decision making. The fundamental strategic decision relates to the choice of mission. In other words, the answer to question-*what is our business? What will it be? And what should it be?* are the basic concerns in strategic management. With regard to objective setting, the senior management is faced with alternatives regarding the different yardsticks to measure performance. Finally at the level of choosing a strategy, the senior management chooses from a number of strategic alternatives in order to adopt one specific of action which would make the company achieve its objectives and realize its mission.

A part from the fundamental decisional choice as pointed above, there are numerous occasions when the senior management has to make important strategic decisions.

3.3 Issues in Strategic Decision-making:

As strategic decision making is a complex process, it is difficult to perform. It is incomprehensible; it cannot be analysed and explain easily. Decision makers are unable to describe the exact manner in which strategic decision are made. Like the working of the human mind, strategic decision making is fathomless. And rightly so for it is based on complex mental processes which are not exposed to the view. While commenting on the nature of strategic decision making Henry Mintzberg says that the key managerial processes are enormously complex and mysterious, drawing on the vaguest of information and using the least articulated of mental processes. These processes seem to be more relational and holistic than ordered and sequential and more intuitive than intellectual.

For these reasons, no theoretical model , however painstakingly formulated can adequately represent the different dimensions of the process of strategic decision making. Some issues are as follows:

3.4 Criteria for decision-making:

The process of decision making requires objective setting. These objectives as those serve as yardsticks to measure the efficiency and effectiveness of the decision-making process. In this way objectives serve as the criteria for decision making. There are three major viewpoints regarding setting criteria for decision making:

The first is the concept of *maximization*.

The second view is based on the concept of *satisficing*.

The third viewpoint is that of the concept of *incrementalism*.

Rationality in decision-making:

In the context of strategic decision making, *rationality* means exercising a choice from among various alternatives courses of action in such a way that it may lead to the achievement of the objectives in the best possible manner. Those economists who support the maximizing criterion consider a decision to be rational if it leads to profit maximization *Behaviourists*, who are proponents of the satisfying concept, believe that rationality takes into account the constraints under which a decision maker operates. *Incrementalists* are of the opinion that the achievement of objectives depends on the bargaining process between different interested coalition groups existing in an organisation, and therefore a rational decision making process should take all these interests into consideration.

Creativity in decision making:

To be creative a decision must be original and different. A creative strategic decision making process may considerably affect the search for alternatives where novel and untired means may be looked for and adopted to achieve objectives in an exceptional manner.

Variability in decision-making:

It is common observation that given an identical set conditions two decision-makers may reach totally different conclusions. This often happens during case discussions too. A case may be analysed differently by individuals in a group of learners and depending on the different perceptions of the problem and its solutions they may arrive at different conclusions.

Person-related factors in decision making:

There are a host of person related factors that play a role in decision making. Some of these are age, education, intelligence, personal values, cognitive styles, risk taking ability and creativity. Attributes like age, knowledge, intelligence, risk-taking ability, and creativity.

Individual versus group decision making:

Owing to person related factors there are individual differences among decision-makers. These differences matter in strategic decision-making. An organization as it possesses special characteristics operates in a unique environment are in vantage position to undertake strategic decision making. Individuals such as chief executives or entrepreneurs play the most important role as strategic decision makers. But as organizations become bigger and more complex and face an increasingly turbulent environment, individuals come together in groups for the purpose of strategic decision making. We will be referring to many such groups when we deal with the role of strategist. Strategic decision making leads to the formation of strategies.

3.5 Process of Strategic Management:

There are also differences of opinion regarding the phases of strategic management process and the elements they contain. The process and elements of strategic decision making are explained in the following discussion.

Elements in Strategic Management Process:

Each phase of the strategic management process consists of a number of elements which are discrete and identifiable activities performed in logical and sequential steps. As many as twenty different elements could be identified in the models vided by various authors.

1) Establishing the hierarchy of strategic intent:

a) Creating and communicating a vision
b) Designing a mission statement
c) Defining the business
d) Setting objectives

2) Formulation of Strategies

a) Performance environmental appraisal
b) Doing organizational appraisal
c) Considering corporate-level strategies
d) Considering business-level strategies
e) Undertaking strategic Analysis
f) Exercising strategic choice
g) Formulating strategies
h) Preparing a strategic plan

3) Implementation of Strategies:

a) Activating strategies
b) Designing structure and systems

c) Managing behavioural implementation

d) Managing functional implementation

e) Operationalising strategies

4) Performing strategic evaluation and control

a) Performance strategic evaluation

b) Exercising strategic control

c) Reformulating strategies

Exhinit 1.1 Model of the Strategic Management Process:

Establishing Strategic intent Vision, mission, business definition, and objectives
Formulation of Strategies Environmental Appraisal and Organisational Appraisal
Strategy Implementation Project, procedural, Resource Allocation
Strategic Evaluation

The process of strategic management is depicted through a model which consists of different phases, each phase having a number of elements. As we said earlier, most authors agree on dividing the strategic management process into four phases consisting of 20 elements.

1. The hierarchy of strategic intent lays the foundation for strategic management of any organization. In this hierarchy, the vision, mission , business definition, and objectives are established. The strategic intent makes clear what an organization stands for. The element of vision in the hierarchy of strategic intent serves the purpose of stating what an organization wishes to achieve in the long run. The mission relates an organisation to society. The business definition explains the businesses of an organization in terms of customer needs, customer groups and alternative technologies.
2. Environmental and organizational appraisal helps to find out the opportunities and threats operating in the environmental and the strengths and weaknesses of an organization in order to create a match between them. In such a manner opportunities could be availed of and the impact of threats neutralized in order to capitalize on

the organizational strengths and minimize the weaknesses.

3. Strategic alternatives and choices are required for evolving alternatives strategies out of the many possible options, and choosing the most appropriate strategy or strategies in the light of environmental opportunities and threats and corporate strengths and weaknesses. Strategies are chosen at corporate level and business level.
4. For the implementation of a strategy the strategic plan is put into action through six sub-processes: project implementation, procedural implementation, resource allocation. Project implementation deals with setting up the organization. Procedural implementation deals with different aspects of the regulatory framework within which Indian organisation have to operate. Resource allocation relates to the procurement and commitment of resources of implementation.
5. The last phase of strategic evaluation appraises the implementation of strategies and measures organizational performance. The feedback from strategic evaluation is meant to exercise strategic control over

the strategic management process. Strategies may be formulated if necessary.

4.0 Summary

The above discussion defines the term strategy and explains various issues, criteria and the process related to it. We have also compared the conventional and strategic decision making and illustrated how complex the latter form of decision making is. The strategic decision making entails six vital issues that need to be addressed to. These issues are: criteria, rationality, creativity, variability, person-related factors, and individual versus the group in strategic decision making. In the competitive times, it is the strategic mindset that needs to be developed in the ethos of the organization. The managers of tomorrow shall understand and act upon the strategies, irrespective of the nature of the job that they shall be doing.

5.0 Self Assessment Questions:

Q.1 Define Strategic management in your own words?

Q.2 Provide a brief and clear explanation of the concept of strategy?

Q.3 How do we interpret rationality in the context of strategic decision-making?

Q.4 List the elements in the strategic management process?

Q.5 What are the relevant person-related factors in strategic management?

6.0 Suggested Readings:

(i) Andrews K R , The Concept of Corporate Strategy

(ii) Glueck W F Business Policy- Strategy Formation and management Action, PHI

(iii) Hamel, G and CKP rahalad, " Strategic as Stretch and leverage"

(iv) Drucker, PF Management-Tasks Responsibilities, Practices, Harper and Row

Paper: MBA-301 **Strategic Analysis**

Lesson No. 2 **Author : Dr. Tejinder Sharma**

Business- Definition, Setting Goals, Mission & Objectives, Policy Formulation

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1.0 Introduction:

It is often said that a man without a mission in life is like a train without an engine. The mission is the driving force of an individual and gives a direction to his efforts. Similarly, every organization must also have a mission as it gives a direction to its activities. It lays down the blue print for the future course of action. It gives the broad framework within which a firm operates and also defines the value systems, which a firm shall cherish and nurture in future. Therefore, the beginning of all the strategies lies in the mission of the firm. The decision making, allocation of resources and implementation of the strategies depend upon the mission of a firm. Therefore, the top management must specify the mission with utmost care so that they can build an organization, which sustains in diverse situations and business environments, without deviating from the value, which it represents.

2.0 Lesson objectives:

This lesson shall explain you the concept of business policy and setting goals, mission & objectives.,

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3.1 Nature of Business Policy:

It is perfectly normal for companies in the same industry to have different missions and business definitions. Business policy is a mandatory course which is usually included in a typical management studies curriculum. Almost all management education programmes offered by the universities and management institutes in India include a business policy course (by whatever nomenclature it may be addressed) normally in the latter part of a degree or diploma programme. The origin of Business Policy can be traced back to 1911, when the Harvard Business School introduced an integrative course in management aimed at providing general management capability. This course was based on case studies which had been in use at the School for instructional purposes since 1908.

As defined by Christensen and others, business policy *the study of the function and responsibilities of senior management, the crucial problems that affect success in the total enterprise, and the decisions that determine the direction of the organization and shape its future*. The problems of policy in business, like those of policy in public affairs, have to do with the choice of purposes, the moulding of organizational identity and character, the continuous definition of what needs to be done, and the mobilization of resources for the attainment of goals in the face of competition or adverse circumstances.

The comprehensive definition covers many aspects of business policy. Firstly, it considered as the study of the functions and responsibilities of the senior management related to those organizational problems which affect the success of the total enterprise. Secondly, it deals with the determination of the future course of action that an organization has to adopt. Thirdly, it involves a choosing the purpose and defining what needs to be done in order to mould the character and identify of an organization. Lastly, it is also concerned with the mobilization of resources, which will help the organization to achieve its goals.

The senior management consists of those managers who are primarily responsible for long-term decisions, and who carry designations, such as CEO, President, and General Manager. These are the persons who are not concerned with day to day problems but are expected to devote their time and energy to thinking and deciding about the future course of action. With it concern for the determination of the future course of action, business policy lays down long-term plan, which the organization then follows. While determining the future course of action, the senior management has a mental picture of the type of organization they want their company to become.

While deciding about a future course of action, the senior management is confronted with a wide array of decisions and actions that could possibly be taken. The senior management exercises a choice, on the basis of given circumstances, and which, in their opinion, would lead the organization in a specific direction. By moving in a predetermined direction an organization can attain its planned identity and character. Organisational decisions are not made in isolation and managerial actions cannot be taken without providing the resources for them. While deciding about the future course of action, t6he senior management concern themselves with the financial, material and human resources that would be required for the implementation of the long-term plans.

3.2 The Purpose of Business Policy

Business policy is a term associated with the integrated management course, which is generally studied in the latter part of the degree or diploma, and is preceded by the study of functional area courses in finance, marketing, operations and personnel. A business policy course seeks to integrate the knowledge gained in various functional areas so as to develop a generalist approach in management students. Such an approach is helpful in viewing organizational problems in their totality. It can also create an awareness about the repercussions that an action taken in one area of management can have on other area individually, and on the organization as a whole.

The viewpoint adopted in business policy is different from that adopted in the functional area courses. For instance a marketing problem is not viewed purely as a problem of marketing but as an organizational problem. A course in business policy helps in understanding a business as a system consisting of a number of sub-system, and on the system as whole. It is of vital importance for the top management in any organization to adopt such a systems approach to decision-making. Business policy helps a manager to become a generalist by avoiding the narrow perspective generally adopted by the specialists, and to deal with business problems from the viewpoint of the senior management.

The problem of declining sales volume is apparently a marketing problem. However, an analysis of the problem will show that its roots may probably lie anywhere in the organization. Declining sales volume may be due to a rising level of competition, inefficient distribution, faulty sales promotion, inappropriate recruitment policies, misdirected training, inadequate sales promotion, limited commission to sales personnel, falling quality standards, a decrease in the variety of products offered, outdated design, underutilization of capacity, demotivating credit policies and so on. A problem, which apparently seems to be a marketing problem, may be due to factors not necessarily with in the control of the marketing department. A solution to the problem would necessitate transgressing the artificial boundaries between the functional areas, each of which is looked after by a team of specialists. These specialists, due to their background, training and possibly, loyalty to their disciplines are unaware and ill-equipped to deal with all the problems in entirety. They may come up with short-term solutions but these are only like first-aid to a victim when a thorough diagnosis and treatment is required to mitigate the misery. A generalist on the other hand, is better qualified to deal with organizational problems and can come up with solutions that will have a lasting effect. On the basis of the above discussion, we can say that the purpose of business policy is three fold:

1. To integrate the knowledge gained in various functional areas of management.
2. To adopt a generalist approach to problem solving
3. To understand the complex inter linkages operating with in an organisation through the use of a systems approach to decision-making and relating these changes taking place in the external environment.

3.3 Objectives of Business Policy:

The objectives of business policy have been stated by authors such as Christensen and Steiner and others in terms of knowledge, skills and attitudes. These objectives could be derived from the purpose of business policy.

In terms of Knowledge:

1. The learners of business policy have to understand the various concepts involved. Many of these concepts, like strategy,

policies, plans, and programmes and encountered in the functional area courses too. It is imperative to understand these concepts specifically in the context of business policy.

2. The knowledge of the external and internal environment and how it affects the functioning of an organization is vital to an understanding of business policy. Through the tools of analysis and diagnosis a learner can understand the environment in which a firm operates.
3. Information about the environment helps in the determination of the mission, objectives, and strategies of a firm. The learner appreciates the manner in which strategy is formulated.
4. The implementation of strategy is a complex issue and is variably the most difficult part of strategic management. Through the knowledge gained from business policy, the learner will be able to visualize how the implementation of strategic management can take place.

In terms of Skills:

1. The attainment of knowledge should lead to the development of skills so as to be able to apply that which has been learnt. Such an application can take place by an analysis of case studies and their interpretation, and by analysis of the business events taking place around us.

2. The study of business policy should enable a student to develop analytical ability and use it to understand the situation in given case or incident.
3. Further, the study of business policy should lead to the skill of identifying the factors relevant in decision making. The analysis of the strengths and weaknesses of an organization, the threats and opportunities present in the environment, and the suggestions of appropriate strategies and policies form the core content of general management decision-making.

In Terms of Attitude:

1. The attainment of the knowledge and skill objectives should lead to the inculcation of an appropriate attitude among the learners. The most important attitude developed through this course is that of a generalist. The generalist attitude enables the learners to approach and assess a situation from all possible angles.
2. By acting in a comprehensive manner, a generalist is able to function under conditions of partial ignorance by using his or her judgement and intuition. Typically case studies provide only glimpse of the overall situation and a case analyst frequently faces the frustrating situation of working with less than the required information. Experience has shown that

managers, specially in the area of long range planning, have to work with incomplete information. A specialist would tend to postpone or avoid a decision such conditions but a generalist would go head with whatever information was information available. In this way, he or she acts more like a practitioner rather than a perfectionist.

3.4 Mission& Objectives:

3.4.1 Mission:

While the essence of vision is a forward-looking view of what an organization wishes to become, mission is what an organization is and why it exists. Several year ago Peter F Drucker raised important philosophical questions related to business: *What is our business? What will it be? And what it should be?* These three questions, though simply worded, are in reality the most fundamental questions that organization can put to itself. The answers are based on the analysis of the underlying needs of the society that any organization serves to fulfill. The satisfaction of that need is, then the business of the organization.

Organisations relate their existence to satisfying a particular need of the society. They do this in terms of their mission. Mission is a statement which defines the role that an organization plays in a society. It refers to the particular needs of that society, For instance, its information needs. Abook publisher and a magazine editor are both engaged in satisfying the information needs of society but they do it through different means. A book publisher may aim at producing excellent reading material while a magazine editor may strive to present news analysis in a balanced and unbiased manner. Both have different objectives but an identical mission.

A mission was earlier considered as the scope of the business activities a firm pursues. The definition of mission ha gradually expanded to represent a concept that embodies the purpose behind the existence of an organization.

Characteristics of a Mission Statement:

Organisations legitimize themselves by performing some function that is valued by society. A mission statement defines the basic reason for the existence of that organization. Such a statement reflects the corporate philosophy, identity, character, and image of an organization. It may be defined explicitly or could be deuced from the management's action, decisions or the chief executive's press statements. When explicitly defined it provides enlightenment to the insiders and outsiders on what the organization stands for. In order to be effective, a mission statement should possess the following seven characteristics.

- **It should be feasible:**

A mission should always aim high but it should not be an impossible statement. It should be realistic and achievable- its followers must find it to be credible.

- **It should be precise:**

A mission statement should not be so narrow as to restrict the organisation's activities nor should it be too broad to make itself meaningless.

- **It should be clear:**

A mission should be clear enough to lead to action. It should not be a high-sounding set of platitudes meant for publicity purpose. Many organizations do adopt such statements but probably they do so for emphasizing their identity and character.

- **It should be motivating:**

A mission statement should be motivating for members of the organization and of society, and they should feel it worthwhile working for such an organization or being its customers.

- **It should be distinctive:**

A mission statement which is indiscriminate is likely to have little impact. If all scooter manufacturers defined their mission in a similar fashion, there would not be much of difference among them.

- **It should indicate major components of strategy:**

A mission statement, along with the organizational purposes should indicate the major components of the strategy to be adopted.

- **It should indicate how objectives are to be accomplished:**

Besides indicating the broad strategies to be adopted a mission statement should also provide clues regarding the manner in which the objectives are to be accomplished.

3.4.2 Goals & Objectives:

Goals denote what an organization hopes to accomplish in a future period of time. They represent a future state or an outcome of the effort put in now. A broad category of financial and non-financial issues are addressed by the goals that a firm sets for itself.

Objectives are the ends that state specifically how the goals shall be achieved. They are concrete and specific in contrast to goals which are generalized. In this manner, objectives make the goals operational. While goals may be quantitative, objectives tend to be mainly quantitative in specification. In this way they are measurable and comparable. In strategic management literature there has been confusion with regard to the usage of these terms: Goals and objectives.

3.4.3 Role of Goals & Objectives:

Objectives play an important role in strategic management. We could identify the various facets of such a role as shown below:

1. Objectives define the organisation's relationship with its environment. By stating its objectives, an organization commits itself to what it has to achieve for its employees, customers and society at large.
2. Objectives provide the basis for strategic decision making: By directing the attention of strategists to those areas where strategic decisions need to be taken, objectives leads to desirable standards of behaviour and in this manner help to coordinate strategic decision making.

Managers who set objectives for themselves and their organizations are most likely to achieve them than those who do not specify their performance targets. The importance of the role that objectives play in strategic management could be aptly summed up in the truism: if one does not know where one has to go, any path will take one there.

3.4.4 Features of Objectives:

The objectives must have the following features, in order to be effective and attainable:

(i) Objectives should be understandable

(ii) Objectives should be concrete and specific

(iii) Objectives should be related to a time frame

(iv) Objectives should be measurable and controllable

(v) Objectives should be challenging

(vi) Different objectives should correlate with each other

(vii) Objectives should be set within constraints

3.5 Goals or Policies Formulation:

From the foregoing discussion, it is clear that organizations need to set objectives at different levels, of various types and for different time periods and that such objectives should possess certain desirable characteristics and should resolve certain issues before being used. The question that we now face is; how are objectives formulated? For an answer, we shall consider the factors that have to be taken into account for formulation of objectives.

Glueck identifies four factors that should be considered for objective setting. These factors are: The forces in the environment, realities of an enterprise's resources and internal power relationships, the value system of top executives, and awareness by management of the past objectives of the firm.

3.5.1 The forces in the environment:

These take into account all the interests-sometimes coinciding but often conflicting-of the different stakeholders in an organization. Each group of stakeholder, whether they are company employees, customers, or the government, put forward a set of claims or have expectations that have to be considered in setting objectives.

3.5.2 Realities of enterprise's resources and internal power relationships:

This means that objectives are dependent on the resource capability of a company as well as the relative decisional power that different groups of strategists wield with respect to each other in sharing those resources.

3.5.3 The Value system of the top executives:

This is an impact on the corporate philosophy that organizations adopt with regard to strategic management in general and objectives in particular. Values as an enduring set of beliefs, shape perceptions about what is good or bad, desirable or undesirable. This applies to the choice of objectives too.

3.5.4 Awareness by management:

Awareness of the past objectives and development of a firm leads to a choice of objectives that had been emphasized in the past due to different reasons.

Keeping in view the four factors described above, we observe that objectives setting is complex task which is based on consensus-building and has no precise beginning or end. Vision and mission provide a common thread to bind together the different aspects of the objective setting process by providing a specific direction along which an organization can move.

4.0 Summary

As explained in the earlier discussion, the existence of mission, goals and objectives is vital to the success of any strategy. They provide a direction to the strategy. A broad framework of the strategy is often connoted as the policy, while the missions are the broad statements of the end results that a firm aspires to achieve. When these become specific, they become goals, which are measurable and often quantified. When defined in the terms of the functional areas, these are often connoted as the objectives, which have to be achieved while implementing the strategy. The managers have to understand the nature and scope of each of these concepts so that they are able to define them precisely and accordingly devise out the strategic plans aimed at achieving them.

5.0 Self Assessment Questions:

Q.1 Define mission in your own words?

Q.2 What problems can an imprecise and unclear mission create for an organization?

Q.3 Mention the characteristics of objectives?

Q.4 State the issues that are of importance to objective-setting?

Q.5 Identify the roles that objectives play in strategic management?

Q.6 Only verifiable objectives can be used meaningfully in strategic management?

6.0 Suggested Readings:

(i) Drucker, PF Management-Tasks Responsibilities, Practices, Harper and Row

(ii)Thompson, J L , Strategic managemen; Awareness and Change

(iiii) Abell, D F Defining the Business: The starting point of strategic planning

(iv) Hill C W L and GR Jones, Strategic Management Theory: An Integrated Approach.

Paper: MBA-301 **Strategic Analysis**

Lesson No. 3 **Author: Dr. Tejinder Sharma**

Strategic Planning & SWOT Analysis

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1.0 Introduction:

Strategy formulation and implementation is a continuous process, wherein the series of activities, if done objectively, can yield the achievement of the desired objectives. Unlike planning function, which is more mechanical in nature, strategic planning is more scientific, objective and effective. It is more based and encompassing in nature as it is based on a careful analysis of the surrounding environment, identifying the strengths and weaknesses and then acting upon a plan of action to convert objectives into the achievements. Strategic planning goes in hand with a useful technique of strategic planning, namely the SWOT analysis.

Sizing up a firm's resource strengths and weaknesses an its external opportunities and threats, commonly known as SWOT Analysis, provides a good overview of whether a firm's business position is fundamentally healthy and unhealthy. SWOT analysis is grounded in the basic principles that strategy making efforts must aim at producing a good fit between a company's resource capability and its external situation. Perceptive understanding of a company's resource capabilities and deficiencies, its market opportunities and the external threats to its future well being is essential to good strategy making. Otherwise, the task of conceiving a strategy that capitalizes on the company's resources, aims squarely at capturing the company's best opportunities and neutralizes the threats to its well being becomes a chancy proposition indeed.

2.0 Lesson of Objectives:

This chapter is devoted to the issues in strategic planning and a useful tool used for the purpose, i.e. SWOT analysis.

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3.1 Strategic Planning

Strategic planning is the managerial process of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing opportunities. The aim of strategic planning is to shape the company's business and products so that they yield target profits and growth.

The managers in US started talking of strategic planning in 1970's when they were hit by the energy crisis, high inflation, economic stagnation, threat from Japanese companies and deregulation of key industries. In order to survive in the competitive markets, it was essential for the companies to reorient their operations and strategic planning came as a new mantra of success. Strategic planning is a substrate of corporate strategic planning and does include the activities such as:

- Defining the corporate mission
- Establishing Strategic Business Units (SBUs)
- Assign resources to each SBU
- Planning new businesses, downsizing old businesses etc.

Corporate mission defines the very purpose of an organization and gives direction to it. It provides a shared purpose, direction and opportunity to the company. The SBUs have to be defined to segment various businesses of the firms. Mostly, SBUs are defined in terms of the nature of product/service, geographical area or customer segments. The formation of SBUs gives a sense of accountability to them and helps in deciding the course of action and strategic planning. The resources are assigned to the SBUs depending upon their capability to generate value for the shareholders. The most commonly used models for assigning resources to the SBUs are the Boston Consultancy Group (BCG) Model, General Electric Model and Critique of Portfolio Model. Depending upon the strategic position of the

SBUs into these models, the strategies such as entering new businesses, downsizing, integration, diversification, corporate restructuring etc. are designed and executed.

3.2 Steps in strategic planning

Strategic marketing planning consists of the following steps:

- Defining Business Mission
- Goal Formulation
- Strategic Formulation
- Programme Formulation
- Implementation
- Feedback and control

Various tools such as SWOT and ETOP analysis are available for defining business mission. Firms identify the opportunities and their strengths and the constraints within which they have to function and then define the business mission. The broad business mission is spelled out in the form of precise goals and then long-range plans (or strategies) are designed to achieve these objectives. Firms also make use of strategic alliances to achieve synergies and derive competitive advantage. The programmes define the course of action to be taken to achieve the goals. The implementation is done according to the strategy formulated. The programmes are subjected to periodic control to ensure that the goals are achieved.

A typical marketing programme comprises of defining the marketing mix i.e. the 4 P's – product, price, place and promotion. The basic steps in the marketing strategy formulation remain the same, as stated above. The key marketing control variables are the annual plan control, profitability control and strategic control. The contents of a typical marketing plan are:

- *Executive summary and table of contents*: presents a brief overview of the proposed plan.
- *Current situation*: presents relevant background data on sales, costs, profits, markets, competitors, distribution and macro environment.
- *Opportunity and issue analysis:* identifies the main opportunities/threats, strengths/weaknesses, and issued facing the product line.
- *Objectives:* defines the plan's financial and marketing goals in terms of sales volume, market share, and profit.
- *Strategy:* presents the broad approach that will be used to achieve the plan's objectives.

- *Action programmes:* presents the special programmes designed to achieve the business objectives.
- *Projected profit-and-loss statement:* forecasts the plan's expected financial outcomes.
- *Controls:* indicates how the plan will be monitored.

In the competitive world of today, every business – be it big or small, undertakes strategic planning. The marketers must learn the art of making winning plans. Although there are a lot of tools available for strategic planning, there will never be a substitute to creativity and business acumen.

3.3 SWOT Analysis:

In the acronym SWOT, the alphabets stand for the following words:

S - Strengths

W - Weaknesses

O - Opportunities

T - Threats

These four factors connote the gist of the strategic planning and the managers must understand what each of these stands for. These are explained in the following discussion:

3.4 Strengths

Strength is something, which a firm is good at doing or a characteristics that gives it enhanced competitiveness. It can take any of several forms:

1. A skill or important expertise- low cost manufacturing capabilities, strong e-commerce expertise, technological know-how, a proven track record in defect free manufacture. For example, Chinese manufacturers are having the capability to supply the product at the lowest cost. This is their major strength. Japanese production systems enable them to produce goods with no defects.
2. Valuable physical assets- state of the art plants and equipment, attractive real estate locations, worldwide distribution facilities. For example, Microsoft possesses the highest technological capabilities to produce a user friendly and affordable operating system. This capability makes it the market leader in the industry.

3. Valuable human assets- an experienced and capable workforce, talented employee in key areas motivated and energetic employees, cutting edge knowledge. The biggest strength of a software company are its employees.
4. Valuable organizational assets- proven quality control systems, proprietary technology, key patent, mineral rights, a base of loyal customers, a strong balancesheet and credit rating. Companies like HLL, Nestle, ITC have developed the image of being the best companies in the FMCG segment because they have good production and quality control measures, dedicated customers, etc. Similarly, Reliance has gained access to large reserves of natural gas in Gujarat and Rajasthan, which are its strength.
5. Valuable intangible assets- brand name image, company reputation, buyer goodwill. The mega brands like Coke, Vicks, Nike, Action, Ray Ban etc. are great assets for the companies as they can charge high premium for their products and earn higher revenues.
6. Competitive capabilities- Short development times in bringing new products to market, a strong dealer

network, strong partnerships with key supplier. Intel has the capability to introduce the innovative products with state of the art technology. Maruti has developed a very strong supply chain network for both the inbound and outbound logistics.

7. An achievement or attribute that puts the company in a position of market advantage-low overall costs, market share leadership, a superior product, a wide product selection. Maruti is a low cost and reliable care in the starting segment. This capability has made it the market leader for several decades into the Indian markets.
8. Alliances or cooperative ventures- fruitful collaborative partnerships with supplier and marketing allies that enhance the company's own competitiveness.

Company strengths thus have diverse origins. Sometimes they relate to fairly specific skills and expertise and sometimes they follow from different resources teaming together to create a competitive capability.

3.5 Weaknesses

A weakness is something a company lacks or does poorly or a condition that puts it at a disadvantage. A company's internal weaknesses can relate to:

i) Deficiencies in competitively important skills or expertise or intellectual capital of one kind or another. For example, Indian pharmaceutical sector is suffering a great degree of loss because it has not developed a strong R&D base, which puts it at a disadvantage in comparison to the multinational companies, particularly after the amendments in the patents laws.

ii) A lack of competitively important physical, organizational or intangible assets. For example, many public sector undertakings lack the resources that can make them competitive in the marketplace. The state-run schools suffer from a lack of infrastructure, which makes them uncompetitive when compared to the privately run educational institutions.

iii) Missing or weak competitive capabilities in key areas. For example, LML Vespa, a strong company making scooters could not survive in the two-wheeler market because it could not adapt its products to the changing needs.

Internal weaknesses are the shortcoming in a company's complement of resources. A weakness may or may not be make a company competitively vulnerable, depending on how much the weakness matters in the marketplace and whether it can be overcome by the resources and strength's in the company's possession.

3.6 Opportunities:

Market opportunity is a big factor in shaping a company's strategy. Indeed managers can't properly tailor strategy to the company's situation without first identifying each company opportunity and appraising the growth and profit potential each on holds. Depending on the prevailing circumstances, a company's opportunities can be plentiful or scarce and can range from wildly attractive to marginally interesting. For example, in the seventies, the companies that could understand the prospects of information technology are giant firms of today. In India, the companies, which invested in the upcoming industries like telecommunication, insurance, BPO, consulting, etc. are doing well in the market place. At one time, textiles was a declining sector and people were exiting out of the polyester segment. However, Reliance entered the industry and today it is the market leader. So, the right opportunities can be identified in all the conditions and those who can do so are able to reap supernormal profits and a high degree of competitive edge in the market place.

In evaluating a company's market opportunities and ranking their attractiveness managers have to guard against viewing every industry opportunities as a company opportunity. Not every company in an industry is equipped with the resources to successfully pursue each opportunities that exists in the industry. Some companies are more capable of going after particular opportunities than others, and few companies may be hopelessly outclassed in trying to contend for a piece of the action. For example, in the changed IPR regime, as a part of the WTO commitments, Indian pharma industry has seen some interesting trends. The leaders like Cipla, Ranbaxy are at a disadvantage, while the new players like Dr. Reddy's Laboratory, Nicholas Piramal are doing well. In the same business environment, some could act upon the opportunities, while others were at a loss.

Deliberately adapting a company's resource base to put it in position to contend for attractive growth opportunities is something strategists must pay keen attention to. The market opportunities most relevant to a company are those that offer important avenues for profitable growth, those where a company has the most potential for competitive advantage, and those that match up well with the company's financial and organizational resource capabilities.

3.7 Threats

Certain factors in a company's external environment pose threats to its profitability and competitive well-being. Threats can stem from the emergence of cheaper or better technologies, rivals introduction of new or improved products, the entry of lower-cost foreign competitors into a company's market stronghold, new regulations that are more burdensome to a company than to its competitors, vulnerability to a rise in interest rates, the potential of a hostile takeover, unfavorable demographic shifts, adverse changes in foreign exchange rates, political upheaval in a foreign country where the company's has facilities, and the like. External threats may pose no more than moderate degree of adversity or they may be so imposing as to make a company's situation and outlook quite tenuous. It is management's job to identify the threats to the company's future well-being and to evaluate what strategic actions can be taken to neutralize or lessen their impact.

Opportunities and threats not only affect the attractiveness of a company's situation but more important they point to the need for strategic action. Tailoring strategy to a company's situation entails:

1. Pursuing market opportunities well suited to the company's resource capabilities and
2. Taking actions to defend against external threats to the company's business.

3.8 Applications of SWOT analysis

SWOT analysis is more than an exercise in making four lists. The really valuable part of SWOT analysis is determining what story the four lists tell about the company's situation and thinking about what actions are needed. Understanding the story involves evaluating the strengths, weaknesses, opportunities, and threats and drawing conclusion about how the company's strategy can be matched to both its resources capabilities and its market opportunities, and how urgent it is for the company to correct which particular resource weaknesses and guard against which particular external threats.

To have managerial and strategy making value, SWOT analysis must be a basis for action. It also needs to provoke thinking and answers to several questions about what future resource strengths and capabilities the company will need to respond to emerging industry and competitive conditions and to produce successful bottom-line results. Will the current strengths matter as much in the future? Are there resource gaps that need to be filled? Do new types of competitive capabilities need to put in place? Which resources and capabilities need to be given greater emphasis and which merit lesser emphasis?

SWOT analysis is a versatile tool to formulate the strategy and finds its applicability in almost situations, where strategic planning has to be done. However, the limitation of this tool lies in the likely mistakes that the managers can make in understanding the strengths, weaknesses, opportunities and the threats.

4.0 Summary

Strategic planning is an important part of the process of strategic planning. It entails stating the business mission, formulating the goals, strategies, programmes, and implementing them. In order to respond to the changing times, proper feedback and control mechanisms should also exist. SWOT analysis is a useful tool in the hands of the strategy managers to know the position of a company in the marketplace and also find out the existing opportunities. The strengths provide the competitive advantage to a company, while the weaknesses can erode the same. The opportunities are the likely situations that exist in the environment, which can provide business to a firm and the threats emanate from the environmental or internal changes, for which, the company may not be able to respond to.

5.0 Self Assessment Questions

Q.1 What is strategic planning? Why is it so important in strategy formulation?

Q.2 Explain the steps in the strategic planning.

Q.3 What can be the sources of strengths and weaknesses to a company? Explain with examples.

Q.4 What are opportunities? Give example of the companies that have identified the right opportunities and converted them into profitable business.

Q.5 What are threats? Explain with examples, the consequence of a company, which is not vigilant to identify the threats in time.

6.0 Suggested Reading

1. Zahra, Shaker A., and Sherry S.Chaples." Blind Spots in Competitive analysis"

2. Linneman Robert E., and Harold Eklein. " Using Scenarios in Strategic Decision making"

3. Glueck, W F and L R Jauch, Business POLICY AND Strategic Management

4. Campbell, A,M Goold and M Alexender , Corporate Level Strategy: Creating value in the multibusiness Company

Paper: MBA-301 **Strategic Analysis**

Lesson No. 4 **Author: Dr. Tejinder Sharma**

Strategies for Functional Areas

Structure

1.0 Introduction

2.0 Lesson Objectives

3.0 Presentation of Contents

3.1 Strategies for Functional Areas

3.2 Financial Strategies

3.3 Marketing Strategies

3.4 Operations Strategies

3.5 Personnel Strategies

3.6 Information Management

4.0 Summary

5.0 Self Assessment Questions

6.0 Suggested Reading

1.0 Introduction:

Functional strategy deals with a relatively restricted plan which provides the objectives for a specific functions, for the allocation of resource among different operations within that functional area and for enabling a coordination between them for an optimal contribution to the achievement of the business and corporate level objectives. Functional strategies are derived from business and corporate strategies and implemented through functional and operational implementation.

2.0 Lesson Objectives:

This lesson explains the strategies of different functional areas i.e. marketing, finance, operations, etc.

3.0 Presentation of contents:

3.1 Strategies for Functional Areas:

For effective implementation, strategists have to provide directions to functional managers regarding the plans and policies to be adopted. In fact effectiveness of strategic management depends critically on the manner in which strategies are implemented.

The development of functional plans and policies is aimed at making the strategies formulated at the top management level practically feasible at the functional level. Strategies need to be segregated into viable functional plans and policies that are compatible with each other. Strategies can be implemented by the functional managers. The process of developing functional plans and policies formal or informal is similar to that strategy formulation.

3.2 Financial Strategies:

The financial plans and policies of an organization are related to the availability, usage and management of funds. Strategists need to formulate plans and policies in these area so that strategies may be implemented effectively.

3.2.1 Sources of Funds:

Plans and policies related to the sources of funds deal with financing or capital-mix decisions. Plans and policies have to be made for the following major factors: Capital structure; procurement of capital and working capital borrowings, etc. These plans and policies are important since they determine how financial resources will be made available for implementation of strategies.

3.2.2 Usage of Funds:

Strategies for the usage of funds with investment or asset-mix decisions have to be devised out. The important factors that are relevant here are: dividend decisions, current assets, loan and advances. Usage of funds is important since it relates to efficiency and effectiveness of resource utilization in the process implementation. The implementation of projects in pursuance of expansion strategies typically results in an increase capital, work-in –progress and current assets. If plan and policies are not clear the usage of funds is inefficient, leading to less than optimum utilisation of resources.

3.2.3 Management of funds:

The management of funds is an important area of financial plans and policies. It basically deals with decisions related to the systemic aspects of financial management. The major factors for which plans and policies related to the management of funds have to be made are: the system of finance, accounting, and budgeting, management control system; cash, credit and risk management; cost control and reduction and tax planning and advantages. The management of funds can play a pivotal role in strategy implementation as it aims at the conservation and optimum utilization of funds-objectives which are central to any strategic action. Organisations which implement business strategies of cost leadership cannot escape the rigours of the proper management of funds.

3.6 Marketing Strategies:

Plans and policies related to marketing have to be formulated and implemented on the basis of 4 p's of marketing mix that is product, pricing, place and promotion. The major issues and decisions related to these marketing mix factors.

3.3.1 Product:

Product denotes the goods and services that an organization offers to its target markets. Plans and policies related to products and markets need to be formulated and implemented on the basis of characteristics, such as quality, features, choice of models and so on. Strategies dictate the manner in which product and market characteristics would be defined. Thus, competitive strategies may be implemented by stressing on high quality, and better and more features.

3.3.2 Pricing:

Price denotes the money that customers pay in exchange for goods and services. It is important to the seller because it represents the returns of its efforts. To a buyer, price is the value that is assigned to the satisfaction of its needs and wants. Several price characteristics, such as, discount, mode of payment, allowances, payment period, credit terms, and so on. Affect pricing plans and policies.

3.3.3 Place:

Place is the process by which goods or services are made available to the customer. Distribution plans and policies address themselves to issues, such as the channels to be used transportation, logistics, and storage inventory management; coverage of markets; and so on. The use of distribution plans and policies as well as strategy implementation, is important in the marketing function. The success of market oriented strategies, specially in a competitive environment, rests on the efficiency and effectiveness of the distribution system.

3.3.4 Promotion:

Promotion deals with the marketing communication intended to convey the company's and its product's or service's image to prospective buyers. A promotional may consists of four activities: advertising , personal selling, sales promotion, and publicity.

3.7 Operations Strategies:

The plans and policies for operations are related to the production system, operational planning and control, and R&D. The strategy adopted affects the nature of product/services the markets to be served, and the manner in which the markets are to be served. All these collectively influence the operations system structure and the objectives which are used to determine the operations plan and policies. There are three components of plans and policies , namely the production system, operations planning and control, and Research & development.

3.4.1 Production System:

The production system is concerned with the capacity, location, layout, product or service design, work systems, degree of automation, extent of vertical integration, and other such factors. Plans and policies related to the production system are significant as they deal with vital issues affecting the capability of the organization to achieve its objectives. Strategy implementation would have to take into account the productions system factors as the latter involve decisions which are long-term in nature and influence not only the operation capability of an organization but also its ability to implement strategies and achieve objectives.

3.4.2 Operations Planning and Control:

Plans and policies related to operations planning and control are concerned with aggregate production planning; material supply, inventory, cost, and quality management. Here, the aim of strategy implementation is to see how efficiently resources are utilized and in what Manner the day-to-day operations can be managed in the light of long term objectives.

3.4.3 Research & Development:

Plans and policies for research and development, personnel and facilities, level of technology used, technology transfer and absorption, technological collaboration and support, and so on. R&D occupies an important position in operations management in the Indian context as companies have access to multiple sources of technology, including foreign sources from developed countries. Research and development in strategy implementation as a foundation for implementing strategies like product development and diversification. R&D is also used as competitive strategic tool.

3.8 Personnel Strategies:

Personnel plans and policies related to the personnel system, organizational and employee characteristics, and industrial relations are comes under it.

3.5.1 Personnel System:

Plans and policies related to the personnel system deal with factors like manpower planning, selection, development, compensation, communication and appraisal. The importance of such plans and policies lies in the role that personnel systems play in providing and maintaining human resources.

3.5.2 Organisational and Employee characteristics:

Organisational and employee characteristics include factors, such as the corporate image, quality of managers, staff and workers, perception about the image of the organization as an employer, availability of development opportunities for employees, working conditions and so on. Plans and policies related to these factors have to be formulated if strategies have to be implemented properly. The real value of the organizational and employee characteristics lies in the creation of an appropriate environment for strategy implementation.

3.5.3 Industrial Relations:

Plans and Policies related to Industrial relations deal with issues such as Union management relationship, collective bargaining, safety, welfare and security, employee satisfaction and morale and so on. Industrial relations assume a special significance in an environment where there are several factors like the pro-labour attitude of the government, rules and regulations related to union workers; multiplicity of unions, political interference and so on. With in this framework, companies have several options with regard to the plans and policies related to industrial relations.

3.9 Information Management:

Information capability factors relate to the design and management of the flow of information from within and outside into an organization. The value of information as a tangible resource and as a source of strategic advantage has been recognized by organizations. The development of information technology and the emergence of information management as a specialized function has helped organizations to derive benefits out of the vast amount of data that is typically present in most organizations. From being a peripheral function dealing with routine activities like payroll accounting and bulk communication, information management is now being viewed as a distinct functional area within organizations, which if managed properly can augment their capability to develop strategic advantage.

3.6.1 Acquisition and Retention of Information:

Plans and policies with regard to the processing and synthesis of information deal with factors such as the sources, quantity, quality and timeliness of information; retention capacity and security of information.

3.6.2 Processing and Synthesis of Information:

Plans and policies formulated for processing and synthesis of information deals with factors such as database management, computer systems, software capability and ability to synthesize information.

3.6.3 Retrieval and Usage of Information:

The retrieval and usage of information deals with factors such as availability and appropriateness of information formats, and the capacity to assimilate and use information.

3.6.4 Transmission and Dissemination of Information:

The plans and policies with regard to the transmission and dissemination of information deal with factors such as speed, scope, width, and depth of coverage of information and willingness to accept information.

3.6.5 Integrative, Systemic and Supportive Factors:

The last set of factors dealing with the integrative, systemic, and support factors such as availability of IT infrastructure, its relevance and compatibility to organizational needs, up gradation of facilities, willingness to invest in state of the art systems, availability of computer professional and top management support.

4.0 Summary:

It is summarized that functional areas strategies have an important role in business organization. But, functional areas and their individual components do not operate in isolation. The different factors interact with in one functional area. Then at a higher level, one functional area interacts with all the other functional areas. This call for integration among the functional area: within as well as across functions. The functional areas in any organization are therefore, based on the segregation of the key activities. But what has been segregated will have to be brought together, since all activities are performed to achieve the overall objectives of any organization. Integration of functional plans and policies provides the mean for such an aggregation. Strategists have to arrange for mechanisms that will ensure that such integration takes place.

5.0 Self Assessment Questions:

1. What does the need for Functional areas strategies?
2. Enumerate the major considerations of strategists in the integration of functional strategies?
3. How the development of Functional plans and policies does take place for implementation of Strategies?
4. What aspects do information management plans and policies cover? Why are these plans and policies significant for strategy implementation?
5. What do you mean by Strategies for functional areas? Is it important for every business organization?

6.0 Suggested Readings:

1. Andrews K R , The Concept of Corporate Strategy

2. Glueck W F Business Policy- Strategy Formation and management Action

3. Thompson, J L , Strategic managemen; Awareness and Change

4. Hill C W L and GR Jones, Strategic Management Theory: An Integrated Approach.

Paper: MBA-301 **Strategic Analysis**

Lesson No. 5 **Author : Dr. Tejinder Sharma**

Introduction to Strategic Decision Making

Value Chain Analysis, Benchmarking, Balance Scorecard

Structure

1.0 Introduction
2.0 Lesson Objectives
3.0 Presentation of Contents
3.1 Value Chain Analysis
3.2 Benchmarking
3.3 Balanced Scorecard
4.0 Summary
5.0 Self Assessment Questions
6.0 Suggested Readings

1.0 Introduction:

The purpose of organizational appraisal (also referred to as appraisal, internal analysis, organizational analysis, company analysis etc.) is to determine the organizational capability in terms of the strengths and weaknesses that lie in the different functional areas. This is necessary since the strengths and weaknesses have to be matched with the environmental opportunities and threats for strategy formulation to take place. In organizational appraisal the various forces and influences operating with in the internal environment of an organization have to be analysed. These forces and influences are a result of the organizational resources, behaviour, synergistic effects, and the competencies of the organization. Organisational capability is dependent on these forces and influences. By appraising an organization, the strategists develop an assessment of its organizational capability to compete in the market. There are a number of considerations in the organizational appraisal. The methods and techniques used for organizational appraisal can be identical to those used for the performance evaluation of an organization.

2.0 Lesson Objectives:

After reading this lesson, you shall be able to understand the concepts of Value Chain Analysis, Benchmarking, Balance Scorecard etc.

3.0 Presentation of Contents:

3.1 Methods and Techniques for Organisational Appraisal:

The methods and Techniques used for organizational can be identical to those used for the performance evaluation of an organization. But there is an important difference between performance evaluation and organization appraisal. In evaluating performance the emphasis is on assessing the current behaviour of the organization with respect to its efficiency and effectiveness, and such an assessment is generally of a short-term nature. On the other hand, organizational appraisal is of a comprehensive and longterm nature and the emphasis is not just on current behaviour but also on what the organization needs to do in order to gain the capability to compete in the market, take advantages of the available opportunities, and overcome the treats operating in its relevant environment.

Keeping in view the differences between performance evaluation and organizational appraisal, the methods and techniques used be classified broadly in three parts as below:

Internal Analysis

A. Value Chain Analysis

B. Quantitative Analysis

i) Financial Analysis

ii) Non-Financial Analysis

C. Qualitative Analysis

Comparative Analysis

A. Historical Analysis

B. Industry Norms

C. Benchmarking

Comprehensive Analysis

A. Balanced Scorecard

B. Key Factor rating

Internal Analysis:

The internal analysis of an organization deals with an investigation into its strengths and weaknesses by focusing on factors that are specific to its. In contrast, as we will see a while later, comparative analysis deals with an examination of the strengths and weaknesses of an organization in relation its own past record or with reference to its competitors.

3.2 Value Chain Analysis:

This is a method for assessing the strengths and weaknesses of an organization on the basis of an understanding of the series activities it performs. Porter(1985) is credited with the introduction of the framework called value chain. A value chain is a set of interlinked value-creating activities performed by an organization. These activities may begin with the procurement of basic raw materials, go through its processing in various stages and continue right up to the end products finally marketed to the ultimate consumer.

Porter divided the value chain of a manufacturing organization into primary and support activities. Primary activities are directly related to the flow of the product to the customer and include five sub-activities: inbound logistics (receiving, storing etc.) operations (or transformation of raw material to finished products), outbound logistics (order processing, physical distribution, etc.) Support activities are provided to sustain the primary activities. These consist of the firm infrastructure (including finance, accounting, general management etc) human resource management, technology development, and procurement.

Representative Company Value Chain:

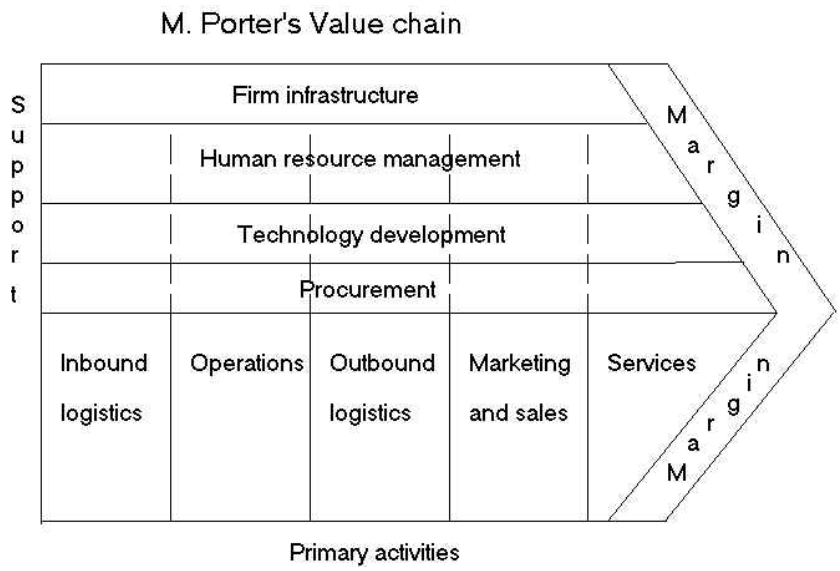
The following discussion shall explain how the value chain can be defined and identified in a firm.

1. Primary Activities:

Purchased Supplies and Inbound Logistics:

Activities, costs and assets associated with purchasing fuel, energy, raw material, parts components, merchandise and consumable items from vendors, receiving, storing and disseminating inputs from suppliers, inspection and inventory management.

Operation:



Activities, costs and assets associated with converting inputs into final product from (production, assembly, packaging, equipment maintenance, facilities, operations, quality assurance, environmental protection).

Distribution and outbound Logistics:

Activities, costs, and assets dealing with physically distributing the product to buyers(finished goods warehousing, order processing, order picking and packing, shipping)

Sales &Marketing:

Activities, costs, and assets related to sales force efforts, advertising and promotion, market research and planning, and dealer/distributor support.

Service:

Activities, costs and assets associated with providing assistance to buyers such as installation, spare parts delivery, maintenance and repair, technical assistance, buyer inquiries, and complaints.

2. Support Activities:

Research, Technology, and Systems Development:

Activities, costs and assets relating to product R&D process, process design improvement, equipment design, computer software development, telecommunication systems, computer-assisted design and engineering new database capabilities, and development of computerized support systems.

Human Resources Management:

Activities, costs and assets associated with the recruitment, hiring, training development, and compensation of all types of personnel;

labor relations activities; development of knowledge based skills and core competencies.

General Administration:

Activities, costs and assets relating to general management, accounting and finance, legal and regulatory affairs, safety and security, management information systems, forming strategic alliances and collaborating with strategic partners and other overhead functions.

It is a representation of the interrelated chain of activities that are required to be undertaken to bring the finished product to the doorstep of the customer. The profit margin that an organization earns depends on how effectively the value chain has been managed. The value chain provides a systematic view of the examination of all the activities performed by an organization and how these activities interact and interrelated.

Oil companies can provide an illustration of the value chain. Here the value chain is broken down into two parts of upstream and downstream activities. The upstream activities refer to oil exploration, drilling, and transporting the crude oil to the refinery. The downstream activities start from the refining and then the transporting and marketing of oil and alied products through distributors and petrol pumps takes place. Most integrated oil companies perform all the upstream and downstream activities but they often vary in terms of the capability they possess in one or more activities in the value chain. ONGC in India sole oil exploration and production company. IOC is into refining, transportation and marketing, and BPCL is strong in transportation and marketing, with a marginal presence into refining. Essar oil and Reliance are into refining, while IBP deals with marketing only. Obviously each of these companies have a set of strengths and weaknesses contributing to their organizational capability. Each has a defined strategic advantage and a specific competitive advantage in the oil industry with respect to others.

Comparative Analysis:

We said that strengths and weaknesses as well as distinctive competencies are not absolute but relative. The relativity is based on the uniqueness and exclusivity of the strengths, weaknesses, and distinctive competencies of an organization in comparison to its competitors. Comparative analysis thus forms the cornerstone of the assessment of the strengths and weaknesses of an organization. It can be done in three ways: historical analysis, on the basis of industry norms and by benchmarking.

Advantages and Limitations of Value Chain Analysis

Value chain analysis is a useful tool to separating the activities and identifying the profit and cost centres in an organization. Such a segregation of the activities helps a firm in building upon its strengths vis-à-vis its competitors. As the firms are entering into very complex systems of doing business, value chain analysis is a useful technique to simplify the operations and analyse them. However, the major limitation of the value chain analysis is that it is not very easy to differentiate between the primary and the secondary activities and it may not always be possible to specify their performance parameters in explicit quantitative terms.

3.3 Benchmarking:

A benchmark is a reference point for the purpose of measuring. The process of benchmarking is aimed at finding the best practices within and outside the industry to which an organization belongs. The purpose of benchmarking is to find the best performers in an area so that one could match one own performance with them and even surpass them. The American Productivity and quality Centre given an interesting interpretation of the them benchmarking by saying that it is the practice of being humble enough to admit that someone else is better at something, and being wise enough to learn how to match and even surpass them it.

When one interested in finding out what is to be compared then there are three types of benchmarking:

- Performance Benchmarking
- Process Benchmarking
- Strategic Benchmarking

3.3.1 **Performance Benchmarking**:

It is to compare one's own performance with that of some other organization for the purpose of determining how good one's own organization is.

3.3.2 **Process Benchmarking**:

It is to compare the methods and practices for performing processes.

3.3.3 **Strategic Benchmarking**;

It is to compare the long-term, significant decisions and actions undertaken by other organizations to achieve their objectives.

When one is interested in finding out against whom to compare oneself then there could a different classification of four types of benchmarking:

- **Internal benchmarking**: it is an comparison between units or departments of the same organization.
- **Competitive benchmarking**: it is a direct comparison of one's own performance against the best competitors.
- **Functional benchmarking**: It is a comparison of processes or functions against non-competitive organizations with in the same sector or technological area.
- **Generic benchmarking**: It is a comparison of one's own processes against the best practices anywhere in any type of organization.

A firm could attempt benchmarking at several levels using all the different types of benchmarking. The main purpose should be to finf out the best practices so that one could conform to it. But before one does this , benchmarking is enough to show where a firm excels or lag behind. This is helpful in assessing the strengths and weaknesses of an organization and determining its capability.

3.4 Balanced Scorecard:

Among the newer techniques used to measure the performance of an organization is that of the balanced scorecard. Proposed by Robert S Kaplan and David P Norton, a balanced scorecard attempts to do away with the bias in performance measures towards financial indices and tries to build a holistic system of measurement. Balanced scorecard is considered as a set of measure that gives top managers a fast but comprehensive view of the business. It includes financial measures that tell the results of actions already taken. And it complements the financial measures on customer satisfaction, internal processes, and the organizations innovation and improvement activities- operational measures that are the drivers of future financial performance.

The Balanced Scorecard Identifies four key performance measures as follows:

1. Customer perspective: How do customers see us?
2. Internal Business perspective: What must we excel at?
3. Innovation and learning perspective: Can we continue to improve and create value?
4. Financial perspective: How do we look at shareholders?

Each of these perspectives could be used individually; but using them in combination provides deeper insights and a balanced approach to strategy formulation. One perspective is not allowed to outweigh others when the strengths and weaknesses of an organization are assessed.

The balanced scorecard is per se a comprehensive strategic management system. But for our limited purpose here, it could as well as be used as a means to identify the strengths and weaknesses in an organization. Keeping score of the strengths and weaknesses in critical areas of performance enables a quantitative as well as qualitative analysis of the organization.

4 Summary:

Understanding and analyzing the environment and the strengths and weaknesses of a firm are essential for the success of any strategy. Several tools have been developed to segregate the activities of the firms into more simpler and specific terms so that they can be analysed easily. Value chain analysis is a tool developed by Micheal Porter, wherein a firm is divided into two sets of activities – the primary and the secondary activities. The primary activities are the ones that create and deliver value, while the secondary activities facilitate the process of value creation and delivery. Benchmarking helps in comparing a firm's practices with the practices of the industry leader. This helps a firm in knowing its relative strengths and weaknesses, in comparison to those of the industry leader. Accordingly, a modification of the processes can help a firm in improving its performance. Balanced Scorecard is a recent technique where the performance of a firm is analysed on well defined parameters and a keen monitoring is done on key activities so that the desired objectives can be achieved.

5.0 Self Assessment Questions:

Q.1 What is Value Chain Analysis?

Q.2 How can industry norms and Benchmarking be used for organizational appraisal?

Q.3 Explain the techniques of Balanced Scorecard?

Q.4 What different approaches can be adopted by strategists to appraise their organizations?

7.0 Suggested Readings:

(i) Barney, Jb, “Firm Resources and Sustained Competitive Advantage” Journal of Management.

(ii) Hitt, MA, RD Ireland and RE Hoskisson, Strategic Management: Competitiveness and Globlisation.

(iii) Thompson , AA Jr and AJ Strickland III, Strategic Management: Concepts and cases.

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(v) Miller, A and G G Dess, Strategic Management.

Paper: MBA-301 **Strategic Analysis**

Lesson No. 6 **Author : Dr. Tejinder Sharma**

Competitive Advantage and Core Competence

Structure

1.0 Introduction

2.0 Lesson Objectives

3.0 Presentation of Contents

3.1 Competitive Advantage:

3.2 Strategies to Secure Competitive Advantages:

3.3 Core Competence:

4.0 Summary

5.0 Self Assessment Questions

6.0 Suggested Reading

1.0 Introduction:

Winning business strategies are grounded in sustainable competitive advantage. A company has competitive advantage whenever it has an edge over rivals in attracting customers and defending against competitive forces. There are many routes to competitive advantage, but the most basic is to provide buyers with what they perceive as superior value- a good product at a low price, a superior product that is worth paying more for, or a best-value offering that represents an attractive combination of price, features, quality, service and other attributes buyers find attractive. Delivering superior value, whatever form it takes, always requires performing value chain activities differently than rivals and building competencies and resource capabilities that are not readily matched. However, another major school of though in the discipline of strategic management upholds the concept of core competences as the sole driver for survival and growth of firms.

2.0 Lesson Objectives:

This chapter shall discuss the concepts and applications of the terms competitive advantage and core competence.

3.0 Presentation of Contents:

3.1 Competitive Advantage:

In the past 10 yrs companies in all types of industries and in all parts of the world have formed strategic alliances and partnership to complement their own strategic initiatives and strengthen their competitiveness in domestic and international markets This is an about face from time past, when the vast majority of companies were content to go it alone, confident that they already had or could independently develop whatever resources and know-how were needed to be successful in their markets. But globalization of the world economy, revolutionary advances in technology across a broad front and updated opportunities in national market in Asia, Latin America and Europe that are opening up, deregulation, and undergoing privatization have made strategic partnership of one kind or another integral to a firm's competitiveness.

Many companies now find themselves thrust in the midst of two very demanding competitive races:

1. Global race to build a market presence in many different national markets and establish an attractive position among the global market leaders
2. The technology race to capitalize on today's technological and information age revolution and build the resource strengths and business capabilities to compete successfully in the industries and product markets of the future.

Even the largest and most financially strong companies have concluded that simultaneously running the races for global market leadership and for a stake in the industries of the future requires more diverse and expensive skills, resources, technological expertise, and competitive capabilities than they can assemble and manage alone. Indeed, the gaps in resources and competitive capabilities between industry rivals have become painfully apparent to disadvantaged enterprise. Allowing such gaps to go unaddressed can put a company in a precarious competitive position or even prove fatal. When rivals can develop new products faster or achieve better quality at lower cost or have more resources and know-how to exploit opportunities in attractive new market arenas, a company has little option but to try to close the resources and competency gap quickly; the fastest way to so this is often with the capabilities and strengths of new strategic allies. In today's rapidly changing world, a company that cannot position itself quickly misses important opportunities, whether they be in cyberspace or foreign countries. More and more enterprise are concluding that well chosen alliances can allow them to bypass the comparatively slower and more costly process of building one's own capabilities internally to access new opportunities.

3.2 Strategies to Secure Competitive Advantages:

3.2.1 Offensive Strategies

3.2.2 Defensive Strategies

3.2.1 Offensive Strategies:

Competitive advantage is nearly always achieved by successful offensive strategic moves- initiatives calculated to yield a cost advantage, a differentiation advantage or a resource advantage. Defensive strategies, in contrast can protect competitive advantage but rarely are the basis for creating advantage. How long it takes for a successful offensive to create an edge varies with the competitive circumstances. If the requisite resources and capabilities are already in place awaiting deployment or if the offensive produce immediately buyer response or the buildup can take much longer if winning consumer acceptance of an innovative product will take some time or if the firm may need several years to debug a new technology or put new network systems or production capacity in place. Ideally an offensive move builds competitive advantage quickly; the longer it takes, the more likely rivals will spot the move, see its potential, and begin a counter response.

There are six basic types of strategic offensive;

(i) Initiatives to match or exceed competitor strengths
(ii) Initiative to capitalize on competitor weaknesses
(iii) Simultaneous initiative on many fronts
(iv) End-run offensives to move to less contested ground
(v) Guerrilla offensives
(vi) Preemptive strikes

These are explained in the following discussion.

(i) Initiatives to Match or Exceed Competitor Strengths:

There are two instances in which it makes sense to mount offensives aimed at neutralizing or overcoming the strengths and capabilities of rival companies. The first is when a company has no choice but to try to whittle away at a strong rival's competitive advantage. The second is when it is possible to gain profitable market share at the expense of rivals despite whatever resource strengths and capabilities they have. Attacking a powerful rival's strengths may be necessary when the rival possesses either a superior product offering or superior organizational resources and capabilities.

(ii) Initiatives to Capitalize on Competitor Weaknesses:

A company can take the initiative to gain market inroads by directing its competitive attention to the weaknesses of rivals. There are a number of ways to achieve competitive gains at the expense of rival's weaknesses:

(a) Go after the customer of those rivals whose products lag on quality, features or product performance; in such cases a challenger with a better product can often convince the most performance conscious customer to switch to its brand.

(b) Make special sales pitches to the customers of those rivals who provide sub par customer service. It may be relatively easy for a service-oriented challenger to win a rival's disenchanted customers.

(c) Try to move in on rivals that have weak brand recognition. A challenger with strong marketing skills and a recognized brand name can often win customers away from lesser-known rivals.

(d) Concentrate on geographic regions where a rival has a weak market share or is exerting less competitive effort.

(e) Pay special attention to buyer segments that a rival is neglecting or is weakly equipped to serve.

(iii) Simultaneous Initiatives on Many Fronts:

In certain situations, a company may see merit in launching a grand competitive offensive involving multiple initiatives across a wide geographic front. Such all-out campaigns can throw a rival off balance diverting its attention in many directions and forcing it to protect many pieces of its customer base simultaneously. Microsoft employed a grand offensive to establish a prominent Internet presence that goes well beyond just being a developer for PC software. It rapidly introduced upgraded versions of Internet Explorer incorporated Explorer in its Windows Operating system allowed Internet users to download Explorer free negotiated deals with Internet service provider to feature Internet Explorer , put several thousands programmers to work on variety of Internet related projects.

(iv) End-Run Offensives to move to less Contested Ground:

End-run offensives seek to avoid head on challenges tied to aggressive price cutting, escalated advertising or costly efforts to out differentiate rivals. Instead the idea is to maneuver around competitors, capture unoccupied or less contested market territory, and change the rules of the competitive game in the aggressor's favor. Examples of end-run offensive include:

(a) Introducing new products that redefine the market and terms of competition.
(b) Launching initiatives to build strong positions in geographic areas where close rivals have little or no market presence.
(c) Trying to create new segments by introducing products with different attributes and performance features to better meet the needs of selected buyers.
(d) Leapfrogging into next generation technologies to supplant existing technologies product services.

(v) Guerrilla Offensives:

Guerrilla offensives are particularly well suited to small challengers who have neither the resources nor the market visibility to mount a full fledged attack on industry leaders. A guerrilla share wherever and whenever an under log catches rivals napping or spots an opening through which to lure their customers away. Guerrilla offensives can have occasional lowering of price, surprising key rival with sporadic but intense promotional activity or undertaking special campaigns to attract buyers away from rivals plagued with a strike or problem in meeting delivery schedules.

(vi) Preemptive Strikes:

Preemptive strategies involve moving first to secure an advantageous position that rivals are foreclosed or discouraged from duplicating. What makes a move preemptive is its one of a kind nature-whoever strikes first stands to acquire competitive assets that rivals can't readily match. There are several ways a firm can bolster its competitive with preemptive moves:

(a) Acquire a company that has exclusive control of or commanding expertise in a valuable technology, thereby giving the firm hard to match technological advantage.

(b) Secure exclusive or dominant access to the best distributors in a particular geographic region or country.

(c) Tie up the best raw material sources or the most reliable, high quality suppliers via exclusive partnership long-term contracts or acquisition.

(d) Secure the best geographic locations. An attractive first mover advantage can often be locked up by moving to obtain the most favourable site along a heavily traveled thoroughfare, at a new interchange in a new shopping mall in a natural beauty spot, close to cheap transportation or raw material suppliers or market outlets and so on.

(e) Obtain the business of prestigious customers thereby boosting the company's reputation and winning the confidence of otherwise hesitant buyers.

(f) Build an image that a unique , hard to copy, and established a compelling psychological appeal.

3.2.2 Defensive strategies:

In a competitive market, all firms are subject to challenges from rivals. Market offensives can come with both from new entrants in the industry and from established firms seeking to improve their market positions. The purpose of defensive strategy is to lower the risk of being attacked, weaken the impact of any attack that occurs, and influence challenger to aim their efforts at other rivals. While defensive strategy usually doesn't enhance a firm's competitive advantage, it helps fortify a firm's competitive position protect its most valuable resources and capabilities from imitation and sustain whatever competitive advantage it does have.

there are two basic approaches to defensive strategy:

(i) Moving to block challengers

(ii) Signaling the likelihood of strong retaliation

(i) Moving to block challengers:

The most frequently approach to defending a company's present position involves actions that foreclose a challenger's options for initiating competitive attack. There are many number of obstacles that can be put in the path of would be challengers. A defender can participate in alternative technologies to reduce the threat that rivals will attack with a better technology. A defender can introduce new features, add new models or broaden its product line to close off gaps and vacant niche to would be challengers. It can offset the efforts of rival to attack with a lower price maintaining economy priced options of its own. A defender also can hire talented employees to broaden or depend the company's base of core competencies or capabilities in key areas. It can try to buyer from trying competitors brands by lengthening warranty coverages, offering free training and support services, developing the capability to deliver spare parts to user faster than rivals can providing coupans and sample give away to buyers most prone to experiment and making early announcements about impending new products or price changes to induce potential buyers to postpone switching.

(ii) Signaling the likelihood of strong retaliation:

A second approach to defensive strategy entails signaling challengers that strong retaliation is likely in the event of an attack. The goal is either to dissuade challengers from attacking at all by raising their expectations that the resulting battle will be more costly than it is worth or at least to divert them to less threatening options. Would be challenger can be signaled by:

(a) Publicly committing the company to a policy of matching competitors term or prices

(b) Maintaining a war chest of cash and marketable securities

(c) Making an occasional strong counter response to the moves of weak competitors to enhance the firm's image as a tough defender.

Another way to dissuade rivals is to try to lower the profit inducement for challengers to launch an offensive. When a firm's or industry's profitability is enticingly high, challengers are more willing to tackle high defensive barriers and combat strong retaliation. A defender can deflect attacks, especially from new entrants, by deliberately forgoing some short run profits and using accounting methods that obscure profitability.

3.3 Core Competence:

On the basis of its resources and behaviour an organization develops certain strengths and weaknesses which when combined to synergistic effects. Such effects manifest themselves in terms of organizational competencies. Competencies are special qualities possessed by an organization that make them withstand pressures of competition in the market place. In other words, the net results of the strategic advantages and disadvantages that exist for an organization determine its ability to compete with its rivals. Other terms frequently used as being synonymous to competencies are unique resources, core capabilities, invisible assets, embedded knowledge an so on.

When an organization develops its competencies over a period of time and hones them into a fine art of competing with its rivals it tend to use these competencies exceedingly well. The capability to use competencies exceedingly well turns them into core competencies. When a specific ability is possessed by a particular organization exclusively, or in a relatively large measure, it is called a distinctive competences. Few examples of distinctive competencies :

i) Superior product quality in a particular attribute say a two-wheeler which is more fuel efficient than its competitor products.

ii) An organisation’s access to a low cost financial source like equity shareholders, not available to its competitors.

iii) Creation of a market niche by supplying highly specialized products to a particular market segment.

We may seem to be making a hairline distinction here between the three terms: Competencies, core competence and distinctive competencies. The difference as you must have noted lies in the degree of uniqueness associated with the net synergistic effects occurring within an organization . You could think of them as being synonymous so long as you are able to make a distinction among than when necessary. Among three it is the term core competence that has gained greater currency and popularity. The term core competence has been popularized by Prahalad and Hamel as an idea around which strategies could be formulated by an organization.

4.0 Summary

The competitive advantage of focusing is earned either by achieving lower costs in serving the target market niche or by developing an ability to offer niche buyers something different from rival competitors in other words it is either cost based or differential based. A focused strategy based either on low cost or differentiation becomes increasingly attractive through the target market niche is big enough to be profitable and offers good growth potential.

5.0 Self Assessment Questions:

Q.1 What do you mean by Competitive Advantage?

Q.2 Explain briefly the concept of Core Competence?

Q.3 What are the differences among differential and offensive strategies of competitive advantage?

Q.4 What are the basic approaches of defensive strategy?

Q.5 What are the basic approaches of offensive strategies?

6.0 Suggested Readings:

(i) Barney , Jay B., Gaining and Sustaining Competitive Advantage

(ii) Porter, Michael E., Competitive Advantage.

(iii) Schnarrs Steven P., Managing Imitation Strategies: How later entrants seize Markets from pioneer

(iv) D ‘aveni, Richard, A Hyper-competition: The Dynamics of strategic Maneuvering

Paper: MBA-301 **Strategic Analysis**

Lesson No. 7 **Author : Dr. Tejinder Sharma**

Components of Environment, Environment & Strategy

Structure

1.0 Introduction
2.0 Objective
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3.1 Components of international business environment
3.2 Internal (Controllable) environment
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1. Introduction

In today's multi-polar world, the conditions under which the business functions are much more complex and uncertain than they were before. Strategy formulation entails establishing a proper firm environment that highlights the critical importance of analysing the international business environment. The essence of any successful business strategy is its environmental orientation. Since, there are some fundamental differences between the business operations in the domestic and the international markets, for a successful strategy, there is a need to understand the complexities of the international markets. It is more than unlikely that a firm can extend its domestic strategies into the foreign markets. Mere understanding of the customer requirements is not enough. A company has to go beyond its internal strategies, understanding customer requirements.

What makes a business strategy successful in one market and a failure in another market is because of the difference in the firms' capabilities to understand and respond to the international business environment.

2.0 Objective

The objective of this lesson is to acquaint the students with the business environment, which is faced by the companies, when they tread out of their home countries into the global markets.

3.0 Presentation of Contents

3.1 Components of international business environment

The environment is a complex entity, having different components, which can be classified according to different basis. The simplest classification of business environment is to comprehend it as comprising of two categories:

(a) Controllable environment (also called as the internal environment, or the task environment)

(b) Uncontrollable environment (also called as the external environment, or the remote environment).

These components are explained in the following discussion.

3.2 Internal (Controllable) environment

The internal environment of a firm decides its competence to do business in foreign countries. It is also called as the controllable component of international business environment because the company can control it to a great extent. Some of the components of internal environment are:

3.2..1 Mission

The firm's mission decides the course of action that a firm will follow in order to survive and grow. In the present times, the firms develop a few core competences and develop their entire global business plan on its basis. They do not dissipate their resources by venturing into too many businesses, but concentrate on their core strengths and do not mind outsourcing the rest.

3.2.2 Strategy

The mission translates into more operational paradigm in the form of strategy, which operates at various levels. Firms often develop core competences, but only a few are able to convert it into successful business. The classical case of Cannon vs Xerox is an example. Both the companies started by developing core competence in optical scanning, but over a period of time, Xerox outsmarted the former by its superior strategy. Cannon, at one time, had practically driven Xerox even out of its home country i.e. USA. But, Xerox developed a very comprehensive marketing and customer service strategy and regained its leadership in the photocopier industry.

3.2.3 Operations

The operations refer to the operating competence of a company i.e., how well it is able to undertake the work at the ground level. It is that paradigm of the strategy, which can be implemented. A firm's cost leadership, its marketing strategy, its production efficiency and the nature of its human resources have a significant impact on the success of a company.

Although, the above components are called as the controllable components of business environment, but in a strict sense, they might not remain controllable at all times. The external uncontrollable components can become too powerful and can even influence the strategy of a company. For example, when Coke and Pepsi faced a problem because of the presence of pesticides, their strategies had to be redrafted because of a sudden development in the external environment.

3.3 External (Uncontrollable) environment

The external environment, also called as uncontrollable has been divided into two components, namely foreign and international. The foreign environment comprises of the environmental conditions prevailing in the host country, while the international environment refers to the overall international circumstances, which influence the conduct of business. In practice, such a division is not followed strictly and the external environment is studied as one component. Some of the sub-components of the external environment are:

- 3.4 Economic environment
- 3.5 Political environment
- 3.6 Legal and regulatory environment
- 3.7 Cultural environment
- 3.8 Demographic environment

3.4 Economic environment

The economic environment is a major determinant of market potential and opportunity. Since the single most important indicator of market potential is income, the first step in determining the potential of a country or a region is to identify the total, and even more significantly, the per capita income. In general, as peoples' income rises, they spend less on the necessities and more on the discretionary purchases. One of the ways of determining market potential for a product is to evaluate product saturation levels. In general, it is appropriate to compare the saturation levels of countries or of consumer segments with similar income levels. Countries and markets go through typical stages of market development. Although, development is on a continuum, it is possible to identify distinct stages and formulate general estimates about the type of the market that will be found in a country or a market at a particular stage of development. In advanced countries, for example, more than half the GNP is accounted for by te services as opposed to goods. In under-developed countries, the proportion of services is very low.

3.4.1 Economic systems

Although, communism is said to have failed, but a socialistic thought does influence the economic decision-making. People feel that the fruits of economic development must pass on the larger sections of the society. Traditionally, the economic systems are classified as capitalist and communist. However, in the present times, a new blend of the two is emerging, as has been very successfully shown by China. German, the home of Karl Marx does hold the socialist philosophy in high esteem and its ideology can be seen in the regulatory framework of the country. Workers have a participation in the decision making process of the companies.

3.5 Political environment

The political environment has a lot of influence on the activities of a firm. The political setup and the decision making of a country have a lot of influence on the strategy formulation of the firms. The components of the political environment are explained in the following discussion.

3.5.1 Types of political systems

By and large, the communist or the socialist form of government is not working in many countries, but the impact of socialism as a philosophy does persist. There are countries like Pakistan, which follow dictatorship style of government, while most countries in Europe and North America follow democracy. Even the democracy has various forms such as the presidential form, as prevalent in USA, or the parliamentary form of government, as in UK and India. Some countries in the Middle East have a typical theist –political set-up, while others are secular countries.

In business, the form of government has a direct impact, because each form of government has its own typical set of policies, programmes and priorities. These have an impact on the regulatory mechanist of the countries and the business has to comply with the laws of the land.

3.5.2 Political instability

Despite diverse political systems, no system is bad if it works in a stable manner. The biggest problem arises when there is political instability. Some of the examples of political instability are:

- In Italy, over 45 governments changed in 50 years
- Last decade has seen rapid changes of governments in Japan
- India is passing through the ear of coalition governments

- Pakistan had a military coup and then a democracy, controlled by the military dictator
- Afghanistan was under the rule of fundamentalist Taliban and then is heading towards a more democratic set up
- Iraq has seen a change in regime, enforced by America
- There are coups and genocides in Sierra Leone, Ethiopia, Eritrea, Congo and many other African countries

In each of the examples quoted above, we find an element of uncertainty. The forms of government change and so do the nature of doing business with that country. For a firm aspiring to market its products abroad, it has to carefully study the type of the political system and the stability. In countries, which are politically instable, the business takes extra protective measures and restricts its operations to exporting or joint ventures. However, in the countries with high political stability, the business makes direct investments.

China has attracted maximum foreign direct investment because of a stable pro-business attitude of the government. Despite being a socialist state, China has transformed itself to the needs of time and has opened up its economy at a fast rate. On the other hand, the ghost of regulatory set-up of the yesteryears continues to haunt India and we see less investment here.

Even within India, we see lesser investment in the states such as Kerala and West-Bengal because of the leftist parties in power. We find a significant difference in the investment, even within Punjab and Haryana, partially attributed to favourable government policies.

3.5.3 Political risk

Although, often correlated, political instability and political risk do not go together always. In the first three examples quoted in the above para we find that although the governments changed rapidly in India, Japan and Italy, the basic policies of the government did not change. Business had a sense of security while doing business in these countries. However, the war in Afghanistan and Iraq has had a tremendous impact on the business. Not many companies are taking the initiative of doing business in these countries. They prefer to wait till normalcy returns.

Political risk in more associated with the uncertainty and unpredictability of the political parties in power in a country. Basically, political risk depends on two factors:

(i) The willingness of a government to keep the situation under control.

(ii) The ability of the government to keep the situation under control

The careful analysis of the political system can greatly reduce the associated risks.

3.6 Legal and regulatory environment

The marketers must carefully study the legal and regulatory system prevalent in the countries to avoid the situations that might result in conflict, misunderstanding or outright violation of the laws of the foreign country. Some of the important aspects, worth consideration, in the legal and regulatory environment are:

3.6.1 International Law

International law has existed since the sixteenth century, although, it has undergone a change in the form over the years. The international bodies such as UN, WTO and the regional groupings have been instrumental in developing the international rules and regulations. These international laws are ratified by the participating countries and are binding in nature. Hence, the business must understand them correctly to ensure compliance.

3.6.2 Conflict of laws

While doing business across nations, there can arise situations when the laws of two or more countries can be conflicting. The businessmen must study these laws and take measures to avoid being caught in such a situation. For example, most of the countries of Middle East want that the goods should be dispatched to them only in those ships, which do not go to Israeli ports. They ask for a certificate from the shipping line in this regard. If an exporter ignores this law, he can be in a very difficult situation and can incur heavy losses.

3.7 Cultural environment

Culture is the set of shared values of a society. It encompasses religion, language, customs, traditions and beliefs, tastes and preferences, social stratification, social institutions, buying and consumption habits etc. It has several interfaces where it influences the business. Some of the important interfaces where culture affects business are:

3.7.1 Culture and Organizational Behaviour

In their book on international management, Hodgetts and Luthans have identified the following points where culture affects organizational behaviour:

(i) Centralized vs decentralized decision-making

In some societies, all-important organizational decisions are made by the top management, while in others, the decisions are diffused throughout the organization. For example, the decision making is highly decentralized in Japanese firms, while it is highly centralized in American firms. There are cultural reasons ascribed to this.

(ii) Safety vs risk

The decision-makers in some organizations are averse to risk, while some take risk and thus make higher gains. The risk bearing behaviour of groups is also a cultural phenomenon. This influences investment decisions at the organizational levels and at the micro level of the consumers, it has its impact on the buying habits. People who take risk buy new and innovative products, while others prefer to stick to tested products.

(iii) Individual vs group reward

In some societies, such as the Japanese, the group reward is valued more than the individual reward, which is the order in he American firms.

(iv) High vs low organizational loyalty

Extrapolating the above point, the societies with strong inter-personal ties have a high degree of organizational loyalty, while those who value individual achievements have low organizational loyalty.

3.7.2 Culture and perception

Culture has a great bearing on how people view themselves and their surroundings, which influences their behaviour. From the perspective of business, the manner in which the people view the following are important:

(i) Views of themselves

People lay varying degree of importance on self-gratification. For example, in the earlier times, people had a high degree of propensity to show off their splendour. Their consumption and spending behaviour was towards extravaganza. Nowdays, people are hard pressed with resources and are driven by value while purchasing. Business needs to study the general trend of buying and take appropriate decisions.

(ii) Views of others

A trend from 'me society' to 'we society' is being shown by the people at large. People feel the pain of others and offer a helping hand to them. The exploitative authoritative manner of business cannot be successful in today's paradigm.

(iii) Views of organizations

Under the pressure of performance and incentive, people as well as organizations have undergone a deep change in their relationship. Employment is no longer for the whole lifetime and the organization is no longer perceived as the bread-giver. Such a shift in the relationship has its impact on the management of human resources in organizations.

3.7.3 Subculture

Within the culture, there exist several sub-cultures, which exhibit a similar influence on the business. A subculture is a variant of the culture. While it shares values and beliefs with the culture, it does modify it according to the specific requirements of the group. For example, although people all over India share common values, celebrate common festivals and profess similar religious beliefs, there are several variations at local levels. Hindus of Punjab would follow different rituals from those in Bengal or Madras. The marketer must understand the subculture as well while adapting to the local conditions.

3.7.4 Culture and business

The culture can have a profound impact on business. The following examples will make this more clear:

(i) Language

Words acquire different meaning when spoken in different languages. So, the marketers have to understand the language of the host country and speak in the words understood by the people there. An offensive marketing campaign can ruin the prospects of selling even the best products. Proper understanding of language can contribute heavily towards the success of any communication and negotiation of business.

(ii) Customs and rituals

The knowledge of customs, rituals, festivals etc. is important because people exhibit typical spending behaviour at different times. For example, hindus go on a shopping spree during the navratras and stop all important purchases during the shradhas. Muslims and Christians make heavy purchases during ramzan and Christmas. A marketer can identify the right marketing opportunities and design the marketing strategy.

(iii) Mannerism and ettiquates

The manners and ettiquettes vary with culture and their knowledge is important while negotiating any deal with the customers.

(iv) Time perspective

People have varying perceptions on time. Some culture are very punctual and work fast and adhere to schedule, while others work with leisure. The time perspective of the target country must be understood and the strategy designed accordingly.

(v) Decision-making

Culture has a profound impact on the decision-making behaviour of the people. While working in the countries where decision making is slow, one must not push for decision and vice versa.

To conclude, understanding of culture is of vital importance for anyone aspiring to be successful in business in foreign lands. Although, the world is becoming global and there is a high degree of cultural diffusion, still, there is a need to adapt to the local environment, of which culture is an important constituent.

3.8 Demographic environment

Management gurus have stated this long ago that ‘management is men, while marketing is people.’ All business activities ultimately revolve around the people. People are the cause of any business. So, any changes in their population has an impact on the business. Some of the important ways in which demographic environment influences business can be stated as under:

(a) Population size

(b) Age distribution

(c) Migration

(d) Education and occupation

3.9 Technological environment

Probably, technology is the single most important factor, which has influences the business. Particularly the advances made in the field of information technology have revolutionized the manner in which business is conducted. The people of today are much more informed and have the entire information available to them, at the click of a mouse. The business firms have to make use of the opportunity and use technology to its advantage.

4 Summary

The key to the success of any business strategy lies in the dexterity of the business managers to understand the environment and act upon it. The environment comprises of the controllable and uncontrollable components, each having its own components and asserting a varying degree of influence on the firms. The uncontrollable factors include the demographic, political, socio-cultural, technological components, while the controllable components comprise of the marketing strategy of a firm. The careful analysis of business helps in the identification of the threats and opportunities and formulating the right kind of the strategy.

5.0 Self-Assessment Questions

Q.1 Define business environment. Why is it necessary to study the same?

Q.2 Differentiate between the controllable and uncontrollable components of business environment.

Q.3 What are the recent changes in the economic environment, which have influences the business?

Q.4 Briefly discuss the role of culture in business.

Q.5 Discuss how the technological innovations in the recent times influence the business.

6.0 Suggested Reading

1 Cateora Philip R (1997), International Marketing, 9th Edition, Irwin/McGraw HIU,

2 Terpestra, Vern (1972) International Marketing, Halt, Reinhart and Winsten Inc.

3 Sundaram, Anant K. and J. Stewart Black (2000) The International Business Environment: Text and Cases, Prentice Hall of India Pvt. Ltd., New Delhi.

4 Keegan, Warren J. (1997) Global Marketing Mangement, Prentice Hall of India Pvt. Ltd., New Delhi.

5 Cherunilam Francis (2004) International Business: Text and Cases, Prentice Hall of India Pvt. Ltd., New Delhi

Paper: MBA-301 **Strategic Analysis**

Lesson No. 8 **Author: Dr. Tejinder Sharma**

Environmental Scanning

Structure

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3.1 Environmental Scanning:

3.2 Methods & Techniques for Environmental scanning:

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3.4 Data sources in Indian firms

3.5 Factors affecting Environmental Scanning:

3.6 Approaches of Environmental Scanning:

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1.0 Introduction:

The process by which organizations monitor their relevant environment to identify opportunities and threats affecting their business is known as environmental scanning. We turn to the methods and techniques employed by the organizations to monitor their environment and together data to derive information about the opportunities and threats affecting their business.

2.0 Lesson of objectives:

This chapter discusses the concept and techniques of environmental scanning.

3.0 Presentation of Contents:

3.1 Environmental Scanning:

Environmental Scanning is helpful in monitoring the environment. An organization can consider the impact of the different events, trends, issues and expectations on its strategic management process. Since the environment facing any organization is complex and scanning is absolutely essential, strategists have to deal cautiously with the process of environmental scanning. They have to make efforts to deal with it in such a manner that unnecessary time and effort is not expanded, while important factors are not ignored.

3.4 Methods & Techniques for Environmental scanning:

There is range of methods & techniques available for environmental scanning. There are formal and systematic techniques as well as intuitive methods available. Several attempts have been made to develop the techniques for environmental scanning. One of the pioneering work done by Fahey, King and Narayanan have identified the following techniques environmental scanning and forecasting strategic planning:

(i) Scenario-writing
(ii) Simulation
(iii) Morphological analysis
(iv) PPBS
(v) Game theory
(vi) Cross-impact analysis
(vii) Field anomaly relation
(viii) Multi-echelon coordination and forecasting techniques.

Many of these techniques are based on the statistical methods that are used for forecasting some of these like Scenario writing may not use statistical information but employ informed judgment and intuition to predict what the future is most likely to be. This may be expressed in the form of a descriptive statement or report. The four steps involved in applying these techniques are:

1. Strategists make observation about the major events and trends in their industry.
2. Then they speculate on a wide range of important issues that might affect the future of their organizations by scanning the environment broadly and comprehensively.
3. The director prepares a report summarizing the major issues and their implications and three to five scenarios incorporating the major themes of the discussion
4. The report and scenarios are reviewed by a group of strategists who identify feasible strategic options to deal with the evolving environment. The options are ranked and teams are designated to develop strategies.

After the environmental scanning process is complete, the strategists are faced with the problem of structuring the mass of information available to them. The problem boils down to sifting the information in such a manner that a clear picture of the opportunities and threats operating in different sectors of the environment facing the organization could emerge.

3.5 Sources of Environmental Scanning:

Various sources of information which are tapped for collecting data for environmental scanning could be classified in different ways. There could be formal and informal sources, or written and verbal sources. In terms of origin, the data sources could be external and internal.

(i) Documentary or Secondary sources of information:

These could be newspaper, magazines, journals, books, trade and industry association newsletters, government publications, annual reports of competitors, companies and so on.

(ii) Mass media:

Radio, television and internet.

(iii) Internal sources:

Company files and documents, management information systems, database, company employees, and so on.

(iv) External Agencies:

Customers, marketing intermediaries, suppliers, trade associations, government agencies and so on.

(v) Formal Studies:

Employees, market research agencies, consultants and educational institutions.

(vi) Spying and surveillance:

Through ex-employees of competitors, industrial espionage agencies.

3.4 Data sources in Indian firms

Following are a few selected and important sources which can be used in the Indian context for collecting information for environmental scanning:

(i) International Publications:

a) Intergovernmental and international agencies like UN, UNESCO, ILO, WHO, UNDP are a rich source of international statistical data.
b) International private data agencies such as country rating agencies like standard &poor, Moody's and other provide

ranking of countries with regard to their attractiveness for foreign investments.

(ii) Government Publication:

a) Governmental information sources such as the Census of India reports, five-year plan reports, statistical abstract of Indian Union and others provide valuable macro level data useful for planning purposes. Statistical abstracts and statistical hand books are published by several central and state government agencies.

b) Periodic reports like economic surveys, annual surveys of industries annual reports of ministries and so on, which provide current data and reflect governmental thinking and priorities.

c) Occasional reports brought out by various statutory agencies, such as guidelines to industries, policies related to specific industry, exim policies, and so on.

d) References, such as India - A reference Annual published by the Ministry of Information, contains comprehensive information on the geographic and demographic features of India.

(iii) Institutional Publications:

a) The Bombay Stock Exchange Directory contains valuable and timely statistical and financial data related to public limited companies besides latest information on statutory and other regulations.

b) An example of one of the several industrial directories brought out in India is Kothari's industrial Directory of India.

c) Publications of market research agencies such as National Council for Applied Economic Research a statutory agency, provide extensive contemporary data on the demographic profile of customers that can be used for strategic and market planning.

d) Publications of trade and industry federations such as CII, Federation of Indian Chambers of Commerce & Industry, Association of Chambers of Commerce & Industry.

(iv) Online database and systems:

a) Online databases are a rich source of statistical and other type of data regarding the economy, industry, and the corporate sector. Several online databases are available worldwide covering a vast range of subjects.

b) With the emergence of the internet, the availability of data has increased manifold. The internet is a convenient way to access online databases of several types of organizations.

(v) Industrial espionage agencies:

Private agencies provide information and reports on competitor plans and activities which are essential for strategic planning.

3.7 Factors affecting Environmental Scanning:

There are so many factors which should be considered for Environmental Scanning. Some of them as follows:

1. Events are important and specific occurrences taking place in different environmental sectors
2. Trends are the general tendencies or the courses of action along which events take place.
3. Issues are the current concerns that arise in response to events and trends.
4. Expectations are the demands made by interested groups in the light of their concern for issues.

3.8 Approaches of Environmental Scanning:

Kubr has suggested three approaches which could be adopted for sorting out information for environmental scanning:

1. **Processed –form approach:**

To adopt this approach, an organization uses information in a processes form, available from different sources both inside and outside the organization. When an organization uses information supplied by government agencies or private institution, it uses secondary sources of data nd the information is available in a proceed form.

2. **Ad hoc approach:**

Using this approach, an organization may conduct special surveys and studies to deal with specific environmental issues from time to time. Such studies may be conducted, for instance when an organization has to undertake special projects, evaluate existing strategies, or devise new strategies. Changes and unforeseen developments may also be investigated with regard to their impact on the organization.

3. Systematic approach:

Under this approach, information for environmental scanning is collected systematically. Information related to markets and customers, the changes in legislation and regulations which have a direct impact on an organisation's activities, governmental policy statements pertaining to an organisation's business and industry, and so on, could be collected continuously to monitor changes and take the relevant factors into account. Continuously updating such information is necessary not only for strategic management but also for operational activities.

Since environmental scanning is absolutely necessary for strategic formulation, organizations use different practical combinations or approaches to monitor their relevant environments. These approaches may range from an informal assessment of environmental factors to a highly systematic and formal procedure. Informal assessment may be adopted as a reactive measure to a crisis and ad hoc studies may be undertaken occasionally. A highly systematic and formal procedure may be used as a proactive measure for the anticipation of changes in environmental factors and structured data collection and processing systems may be used continuously.

Between the two extremes of the informal and formal approaches may lie different stances adopted by organizations depending on varying degrees of concern. Such stances are situational. For example, when an issue-related decision has to be taken, periodic monitoring of the environment may be done. Systematic and ad hoc approaches can be used for the relevant environment of the organization while the processed form approach could be used to appraise both the relevant as well as the general environment. Whatever approach is adopted for environmental scanning , data collection is necessary for deriving information about environmental factors.

4.0 Summary

It is summarized that, by monitoring the environment through environmental scanning, an organization can consider the impact of different events, trends, issues and expectations on its strategic management process. Since the environment facing any organization is complex and scanning is absolutely essential, strategists have to deal with cautiously with the process of environmental scanning. They have to make efforts to deal with it in such manner that unnecessary time and efforts is not expended, while important factors are not ignored.

4.0 Self Assessment Questions:

1. What points need to be considered while using a particular method or technique for environmental scanning?
2. Explain the four steps to be taken in QUEST?
3. How can the internet be used as a source of information for Environmental Scanning?
4. Name some important institutional publications in India which could serve as a source of Environmental Scanning?
5. Define different Approaches of Environmental Scanning?

5.0 Suggested Readings:

1. Davis, K, The Challenge of Business

2. Fahey, L, W R King and V K Narayanan, “ Environmental scanning and forecasting in strategic planning”.

3. LeBell, D and O J Krasner, “ Selecting environmental forecasting techniques for business planning requirements”

4. Nanus, B, "QUEST-Quick Environmental Scanning Technique"

5. Glueck W F and LR Jauch, Business Policy and Strategic Management

Paper: MBA-301 **Strategic Analysis**

Lesson No. 9 **Author : Dr. Tejinder Sharma**

Grand Strategies , Diversification, Integration, Merger & Turnaround

Structure

1.0 Introduction
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3.2 Types of Grand Strategies
3.3 Diversification Strategies
3.4 Integration Strategies
3.5 Merger Strategies
3.6 Turnaround Strategies
4.0 Summary:
5.0 Self Assessment Questions
6.0 Suggested Readings

1.0 Introduction:

In response to the ever changing business environment, no firm can follow a single strategy. The changing situations demand different sets of strategies, to be followed by the firms. There are the several types of strategies that can be adopted by the firms, such as the stability strategies; expansion strategies through concentration, integration, diversification, cooperation and internationalization strategies. Besides them, the firms can also pursue integration, cooperation, retrenchment, strategies of turnaround, divestment and liquidation and finally the combination strategies. The applicability of these is situation specific.

2.0 Lesson of Objectives:

This lesson shall familiarize you with various specialized strategies followed by the firms.

3.0 Presentation of Contents:

3.1 Grand Strategies:

Corporate-level Strategies are basically about the choice of direction that a firm adopts in order to achieve its objectives. There could be small business firm involved in a single business, or a large, complex and diversified conglomerate with several different businesses. The corporate strategy in both these cases is about the basic direction of the firm as whole. In the case of the small firm, it could mean the adoption of course of action that would yield a better profit for the firm. In the case of the large firm the corporate-level strategy is also about managing the various businesses to maximize their contribution to the overall corporate objectives.

The complexity of large firms arises from the fact that each of its businesses, defined along these three dimensions, will result in a variety of customer groups, customer functions, and alternative technologies that a firm is involved with. It is common to find multibusiness firms with interests in serving a diverse base of customer groups, performing a variety of customer functions for them, and marking use of a range of several different technologies.

Corporate-level organization strategies are basically about decisions related to allocating resources among the different businesses of a firm, transferring resources from one set of businesses to others and managing and nurturing a portfolio of businesses in a such a way that the overall corporate objectives are achieved. An analysis based on business definition provides a set of strategic alternatives that an organization can consider.

3.2 Types of Grand Strategies:

There can be a large number of the grand strategies that can be followed by the firms. Some of them are:

3.2.1 Stability Strategy

3.2.2 Expansion Strategies

3.2.3 Retrenchment Strategies

3.2.4 Combination Strategies

3.2.1 Stability Strategy:

The stability strategy is adopted by an organization when it attempts an incremental improvement of its functional performance. The firms can bring about marginal changing of one or more of it businesses in terms of their respective customer groups, customer functions and alternative technologies- either singly or collectively.

In order to understand how stability strategies work, here are three examples to illustrate how organizations could aim at stability in each of the three dimensions of customer groups, customer functions, and alternative technologies.

- A packaged tea company provides a special service to its institutional buyers apart from its consumer sales through market intermediaries, in order to encourage bulk buying and thus improve its marketing efficiency.
- A steel company modernizes its plant to improve efficiency and productivity.
- A copier machine company provides better after sales service to its existing customers to improve its company and product image and increase the sale of accessories and consumables.

All the three companies here do not go beyond what they are presently doing, they serve the same markets with the present products using the existing technology. The strategies aim at stability by causing the companies to marginally improve their performance, or at least letting them remain where they are in case face a volatile environment and a highly competitive market. The essence of stability strategies is sustaining a moderate growth in line with in the existing trends. Where substantial growth is aimed at, the strategy of expansion has to be adopted.

3.2.2 Expansion Strategies:

The expansion grand strategy is followed when an organization that aims at high growth by substantially broadening the scope of one or more of its businesses in terms of their respective customer groups, customer functions and alternative technologies singly or jointly- in order to improve its overall performance .Some of the examples of the expansion strategies are as under:

- A Chocolate manufacturer expands its customer groups to include middle-aged and old person amongst its existing customers comprising of children and adolescents.
- A Stockbrokers firm offers personalized financial services to small investors apart from its normal

functions of dealing in shares and debentures in order to increase the scope of its business and spread its risks.

- A printing firm changes from the traditional letter press printing to desk-top publishing in order to increase its production and efficiency.

In each of above cases, the company moved in one or the other direction so as to substantially alter its present business definition. Expansion strategies have a profound impact on a company's internal configuration causing extensive changes in almost all aspects of internal functioning.

3.2.3 Retrenchment Strategies:

A retrenchment grand strategy is followed when an organization aims at a contraction of its activities through substantial reduction or the elimination of the scope of one or more of its businesses, in terms of their respective customer groups, customer functions or alternative technologies-either singly or jointly-in order to improve overall performance.

Retrenchment involves a total or partial withdrawal from either a customer group customer function, or the use of an alternative technology in one or more of the firm's businesses, as can be seen from the situation given below:

- A pharmaceutical firm pulls out from retail selling to concentrate on institutional selling in order to reduce the size of its sales force and increase marketing efficiency.
- A corporate hospital decides to focus only on specialty treatment and realize higher revenues by reducing its commitment to general cases which are typically less profitable to deal with.

In this manner, retrenchment attempts to trim and fat and results in a slimmer organization bereft of unprofitable customer groups, customer functions or alternative technologies. All the situations described above are in fact an over simplification of the complex reality that an organization faces. In order to deal with the real-life situations, organizations have to evolve a combination of the three grand strategies.

3.2.4 Combination Strategies:

The combination grand strategy is followed when an organization adopts a mixture of stability, expansion and retrenchment either at the same time in its different businesses, or at different times in the same business with the aim of improving its performance.

Any combination strategy is the result of a serious attempt on the part of strategist to take into account the variety of environmental and organizational factors that affect the process of strategy formulation. Complicated situations generally require complex situations. Combination strategies are the complex situations that strategists have to offer when faced with thr difficulties to real life business.

A Paint company augments its offering decorative paints to provide a wider variety to its customers and expands its product range to include industrial and automotive paints, Simultaneously, it decides to close down the division which undertakes large-scale painting contract jobs (retrenchment).

3.3 Diversification Strategies:

Diversification is a much used and much-talked about set of strategies. These strategies involve all the dimensions of strategic alternatives. Diversification may involve internal or external, related or unrelated, horizontal or vertical, and active or passive dimensions-either singly or collectively. Essentially, diversification involves a substantial change in the business definition- singly or jointly- in terms of customer functions, customer groups or alternative technologies of one or more of a firm's business. Diversification strategies are one of the most important types of strategies for expansion. Different types of diversification strategies are explained in the following discussion.

3.3.1 Different Types of Diversification Strategies:

(a) Concentric Diversification

(b) Conglomerate Diversification

(a) Concentric Diversification:

When an organization takes up an activity in such a way that it is related to the existing business definition of one or more of a firm's businesses, either in terms of customer groups, customer functions or alternative technologies, it is called concentric diversification. It may of three types:

Marketing-related concentric diversification: When a similar type of product is offered with the help of unrelated technology.

Technology-related concentric diversification: When a new type of product or service is provided with the help of related technology.

Marketing-and technology-related concentric diversification: When a similar type of product or service is provided with the help of related technology.

(b) Conglomerate diversification:

When an organization adopts a strategy which requires taking up those activities which are unrelated to the existing business definition of one or more of its businesses, either in term of their respective customer groups, customer functions or alternative technologies, it is called conglomerate diversification.

3.3.2 Situations of diversification strategies

1. Diversification strategies are adopted to minimize risk by spreading across several businesses.
2. Diversification may be used to capitalize on organizational strengths or minimize weaknesses.
3. Diversification may be the only way out if growth in existing businesses is blocked due to environmental and regulatory factors.

3.4 Integration Strategies:

We referred to the horizontal and vertical dimensions of grand strategies. These dimensions are used to define what are known as integration strategies. The pivot which integration strategies are designed is the present set of customer functions and customer groups. In other words, a company attempts to widen the scope of its business definition in such a manner that it results in serving the same set of customers. The alternative technology dimension of the business definition undergoes a change.

Integration is an expansion strategy as its adoption results in a widening of the scope of business definition of a firm. Integration is also a subset of diversification strategies as it involves doing something different from what the firm has been doing previously. Several process-based industries, such as petrochemicals, steel, textiles have integrated firms. These firms deal with products with a value chain extending from basic raw materials to the ultimate consumer. Firms operating at one end of the value chain attempts to move up or down in the process while integrating activities adjacent to their present activities.

There are certain conditions under which firms are motivated to adopt integration strategies. Transaction cost economics, a branch of study in the economics of transactions and their costs helps to explain the situation where integration strategies could work. According to transaction cost economics a make or buy decision is taken when firms wish to negotiate with suppliers or buyers. The cost of making the items used in the manufacture of one's own products are to be evaluated against cost of procuring them from suppliers. If the cost of making are less than the cost of procurement then the firms moves up the value chain to make the item itself.

3.4.1 Types of Integration:

(a) Vertical Integration:

When an organization starts making new products that serve its own needs, vertical integration takes place. In other words, any new activity undertaken with the purpose of either supplying inputs is vertical integration.

(b) Horizontal Integration:

When an organization takes up the same type of products at the same level of production or marketing process, it is said to follow a strategy of horizontal integration. When a luggage company takes over its rival luggage company, it is horizontal integration.

3.5 Merger Strategies:

A merger is a combination of two or more organizations in which one acquire the assets and liabilities of the other in exchange for shares or cash, or both the organization are dissolved, and the assets and liabilities are combined and new stock is issued. For the organization which acquires another, it is an acquisition. For the organization which is acquired, it is merger. If both organizations dissolve their identity to create a new organization, it is consolidation.

3.5.1 Types of merger:

(a) Horizontal merger:

It takes place when there is a combination of two or more organizations in the same business, or of organizations engaged in certain aspects of the production or marketing processes. For instance a company making footwear combines with another footwear company, or a retailer of pharmaceuticals combines with another retailer in the same business.

(b) Vertical merger:

It takes place when there is a combination of two or more organizations, not necessarily in the same business, which create complementarity either in terms of supply of materials or marketing of goods and services.

(c) Concentric Mergers:

It takes place when there is a combination of two or more organizations related to each other either in terms of customer functions, customer groups, or the alternative technologies used. This, a footwear company combining with a hosiery firm making socks or another specialty footwear company, or with a leather goods company making purses, handbags, etc.

(d) Conglomerate mergers:

It takes place when there is a combination of two or more organizations unrelated to each other, either in terms of customer behaviour, customer groups, or alternative technologies used.

3.5.2 Reason for merger:

For a merger to take place, two organizations have to act. One is the buyer organization and the other is the seller. Both these types of organizations have a set of reasons on the basis of which they merge. Gluck has identified the reasons as follows:

i) To increase the value of organization's stock.
ii) To increase the growth rate and make a good investment.
iii) To improve stability of earning and sales
iv) Too balance, complete, or diversify product line
v) To reduce competition
vi) To acquire needed resources quickly
vii) To avail tax concessions and benefits
viii) To take advantages of synergy
ix) To increase the value of the owner's stock and investments.
x) To increase the growth rate.

xi) To acquire resources to stabilize operations.

xii) To benefit from tax legislation

xiii) To deal with top management succession problem.

3.6 Turnaround Strategies:

Retrenchment may be done either internally or externally. For internal retrenchment to take place, emphasis is laid on improving internal efficiency. This usually takes the form of an operating turnaround strategy. In contrast, strategic turnaround is a more serious form of external retrenchment and leads to divestment or liquidation. Turnaround strategies derive their name from the action involved, that is, reversing a negative trend.

3.6.1 Conditions for turnaround strategies:

There are certain conditions or indicators which point out that a turnaround is needed if the organization has to survive. These danger signs are:

1. Persistent negative cash flow
2. Negative profits
3. Declining market share
4. Deterioration in physical facilities
5. Overmanning, high turnover of employees, and low morale

6. Uncompetitive products or services
7. Mismanagement

3.6.2 Managing Turnaround:

These are three ways in which turnarounds can be handled:

1. The existing chief executive and management team handles the entire turnaround strategy with the advisory support of a specialist external consultant. The use of this method can only be successful if the chief executive has a reasonable amount of credibility left with the banks and financial institution and a qualified consultant is available. This type of turnaround management i.e. under a existing team, is rarely attempted.
2. In another situation, the existing team withdraws temporarily and an executive consultant or turnaround specialist is employed to do the job. This person is usually deputed by the banks and financial institutions and after the job is over reverts to the original position. This method is also very rarely used in India.
3. The last method-the one most difficult to attempt but that is most often used-involved the replacement of the existing team, specially the chief executive or merging the sick organization with the healthy one.

4.0 Summary:

There can be a large number of the grand strategies that can be followed by the firms. Generically, the strategies have been classified as the stability strategy, expansion strategies, retrenchment strategies and the combination strategies. In the stability strategy, the firm maintains a status quo in its activities, while in the expansion strategies, the firm makes heavy investment of resources with the aim of achieving expansion in its market share and profitability. In case the environment is not conducive for the growth of a firm, it can come out of it by retrenchment strategy. Often, not a single strategy is insufficient for a firm. Therefore, it can also pursue a combination of the strategies. He firms can also diversify to other businesses, or integrate/merge with other firms to achieve greater synergies. Turnaround strategies are followed by the firms when they achieve a significant change in their operations and performance, often with the help of an external expert advice. The choice of each of these strategies is specific to a situation and the managers have to consider all the possible alternatives before deciding upon a single strategy.

5.0 Self Assessment Questions:

1. What is meant by corporate–level Strategy?

2. What are the different type of strategies under these corporate level strategies:
    i) Stability
    ii) Expansion
    iii) Retrenchment
    iv) Combination
3. Explain the Diversification corporate level strategy?
4. For the purpose is a buyer's firm motivated to go for a merger? A seller firm?
5. What are the different approaches can be adopted to a turnaround?

6.0 Suggested Readings:

1. Abell, DF, Defining the Business- The starting Point of Strategic Planning.

2. Glueck, W F and L R Jauch, Business Policy and strategic Management

4. Harrison J S and C H St John, Strategic management of organizations and Stakeholders

5. Thompson, A A Jr and A J Strickland III, Strategic Management – Concepts and Cases.

Paper: MBA-301 **Strategic Analysis**

Lesson No. 10 **Author: Dr. Tejinder Sharma**

Divestment, Liquidation & Combination Strategies

Structure

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3.2 Reasons of Divestment
3.3 Approaches for divestment
3.4 Liquidation Strategies
3.5 Combination Strategies
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1.0Introduction:

The environmental dynamics can often call for a specific response to a firm's strategic alternatives. The firms may aim at achieving a significant change in the nature of their business mission, the strategies and the operational plans. Such a strategy is called the turnaround strategy. If it cuts off the loss-making units, divisions or SBUs curtail its product line, or reduces the functions performed, it adopts a divestment strategy. If none of these actions work, then it may choose to abandon the activities totally, resulting in a liquidation strategy.

2.0 Lesson of Objectives:

This lesson shall explain you corporate level strategies, namely. divestment, liquidation and combination strategies.

3.0 Presentation of Contents

3.1 Divestment strategies:

Divestment strategy involves the sale or liquidation of apportion of business, or a major division, profit center or SBU. Divestment is usually a part of rehabilitation or restructuring plan and is adopted when a turnaround has been attempted but has proved to be unsuccessful. The option of turnaround may even be ignored if it is obvious that divestment is the only answer. Harvesting strategies, a variant of the divestment strategies, involve a process of gradually letting a company or business wither away in a carefully controlled and calibrated manner.

3.2 Reasons for divestment:

A divestment strategy may be adopted due to various reasons:

1. A business that had been acquired proves to be a mismatch and cannot be integrated within the company. Similarly, a project that proves to be unviable in the long-term is divested.
2. Persistent negative cash flows from a particular business create financial problems for the whole company, creating th need for divestment of that business.
3. Severity of competition and inability of a firm to cope with it may cause it to divest.
4. Technological up gradation is required if the business is to survive but where it is not possible for the firm to invest in it. A preferable option would be to divest.
5. Divestment may be done because by selling off a part of a business the company may be in a position to survive.
6. A better alternative may be available for investment, causing a firm to divest a part of its unprofitable business.
7. Divestment by one firm may be part of merger plan executed with another firm, where mutual exchange of unprofitable divisions may take place. The assumption is that such an exchange is in mutual strategic interest.

8. Lastly, a firm may divest in order not to attract the provisions of the MRTP Act or owing to oversize and the resultant inability to manage a large business.

3.3 Approaches to divestment:

A firm may choose to divest in two ways. A part of the company is divested by spinning it off as a financially and managerially independent company, with the parent company retaining or not retaining partial ownership. Alternatively, the firm may sell a unit outright. In the latter case, a marketing concept approach is advisable where a buyer is found who may consider the divested unit to be 'strategic fit". In this way the likelihood of the unit being sold profitably is high.

3.3.1 Decision to divest:

The decision to divest is a painful one for the management as it amounts to admitting a failure. This is the reason why divestment is preferred option is the fact that several family business houses as well as public sector companies in India have always been widely diversified. This made sense when licensing was prevalent and expansion opportunities were severely limited. Companies had no option but to diversify. With a wide-ranging portfolio of businesses, companies now face the problem of diffusion of core competencies. This is the reason why several companies in India are employing divestment as a strategy to streamline their business portfolio and emerge as a focused organization.

Here are a few examples of how companies are attempting to use divestment strategies:

1. Tata group is a highly-diversified entity with a range of business under its fold. They identified their non-core businesses for divestment. TOMCO was divested and sold to Hindustan Levers as a soaps and detergents was not considered a core business for the Tatas. Similarly, the pharmaceuticals companies of the Tatas-Merind and Tata Pharma- were divested to Wockhardt. The cosmetics company Lakme was divested and sold to Hindustan Levers, as besides being non-core business, it was found to be non-competitive and would have required substantial investment to be sustained.
2. VST Natural Products, the food business company of VST, the tobacco firm, was divested to the Global Green Company of the Thapar group. The reasons for divestment were: non-availability of raw materials and inadequate

working capital infusion. VST, the parent company, could not invest more as it was itself running under a loss.

3. Indian Organic Chemicals set up in 1960 by the Ghai group diversified into food processing in 1986 from its main business of organic chemicals. But by early 1989, its FUTURA foods division and another firm, convenience Foods, reached a position where they had to be divested. These units had been involved in the manufacturing of potato afers and banan chips, and had become unviable. The reasons for their failure were: unfair competition from the unorganized sector, technological problems, mismatch between the manufacturing orientation of the ghai group and the marketing orientation required for fast foods, and the lack of funds.

As is evident from the above illustrations, divestment may be the result of failures. But it may also be the result of prudent thinking to divestment in unprofitable lines and divert resources to other areas so that the overall effect could make a company or business group more focused on its core competencies and to create competitive advantage. When divestment does not work, liquidation may be only strategic alternative left.

3.4 Liquidation Strategies:

A retrenchment strategy which is considered the most extreme and unattractive is the liquidation strategy, which involves closing down a firm and selling its assets. It is considered as the last resort because it leads to serious consequences such as loss of employment for workers and other employees, termination of opportunities where a firm could pursue any future activities, and the stigma of failure.

3.4.1 Why is liquidation difficult or undesirable?

Many small- scale units, proprietorship ventures, and partnership ventures liquidate frequently, but medium and large sized companies rarely liquidate in India owing to a number of reasons. The company management, the government, banks and financial institutions, trade unions, suppliers and creditors, and other agencies are extremely reluctant to take the decisions or ask, for liquidation. Each party has its own reasons for doing so. While the management may hesitate to liquidate due to fear of failure, the government may not easily allow liquidation due to political and other risks involved. Trade unions would naturally resist the loss of employment of workers. Ceasing operations does not mean that firm is freed from its contractual obligations to the creditors and suppliers unless, of course, it is declared insolvent or bankrupt.

Selling assets for implementing a liquidation strategy may also be difficult as buyers are difficult to find. Moreover, a firm cannot expect adequate compensation as most assets, being unusable, are considered as scrap. Besides the practical difficulties in liquidation, there is also a psychological aspects which cannot be overlooked. The prospectus of liquidation create a bad impact on the company's reputation. For many executives who are closely associated with firms, liquidation may be traumatic experience. Despite the hesitancy on the part of all connected with a company that intends to liquidate, and difficulties in the process of liquidation, sometimes a firm may be forced to liquidate.

Liquidation strategy may be unpleasant as a strategic alternative but when "dead business is worth more than alive" It is good proposition. For instance the real estate owned by a firm may fetch it more money than the actual returns of doing business. When liquidation is evident and abandonment plan is desirable. Planned liquidation would involve a systematic plan to reap the maximum benefits for the firm and its shareholders through the process of liquidation.

3.4.2 aspects of liquidation:

Under the Companies Act 1956, liquidation is termed as winding-up. The Act defines winding-up of a company as the process whereby its life is ended and its property administered for the benefits of its creditors and members. The Act provides for a liquidator who takes control of the company, collect its assets, pay its debts, and finally distributes any surplus among the members according to their rights.

Liquidation or winding-up according to the companies Act 1956 may be done in three ways:

1. Compulsory winding-up under the order of court
2. Voluntary winding-up
3. Voluntary winding-up under the supervision of the court

The Act also provides for the dissolution of a company in which it ceases to exist as a corporate entity for all practical purposes and is kept under suspended animation for two years. Thus, within a period of two years, the court may order for revival of the company.

The Companies Act, 1956 under Part VII, Sections 425 to 560, deals comprehensively with the different legal aspects of liquidation.

3.5 Combination Strategies:

Combination strategies are a mixture of stability, expansion or retrenchment strategies applied either simultaneously or sequentially.

It would be difficult to find any organization that has survived and grown by adopting a single "pure" strategy. The complexity of doing business demands that different strategies be adopted to suit the situational demands made upon the organization. An organization which has been followed a stability strategy for quite some time has to think of expansion. Any organization which has been on an expansion path for long has to pause to consolidate its businesses. Multibusiness organization as most large and medium India companies are now have to follow multiple strategies either sequentially or simultaneously.

Consider these cases of companies which have adopted multipronged strategies to deal with the complexities of the environment they face.

1. The Tube Investment of India, a Murugappa group company, has created strategic alliances in its three major business: tubes, cycles, and strips. In cycles, it has entered into regional outsourcing arrangement with the UP-based Avon and Hamilton Cycles in the western region. In steel strips, TI has entered into a manufacturing contract with Steel Tubes of India, Steel Authority of India, and the Jindals.
2. Post-1996 the revival of Peerless General Finance and Investment Company, hinges on the rationalization and restructuring of its several businesses, like hotels, housing, hospital, retailing and travel, besides its mainline business as the country's largest private sector non-banking financial institution. The idea was to focus on its core competence of financial services. It placed emphasis on just three or four businesses. Two companies, Peerless technologies and peerless shipping were divested. Tie-ups with several international companies to leverage the utilization of its huge date base and models on the Indian rural sectors was also on the cards.
3. ITC decided to maintain a corporate portfolio consisting of four businesses cigarettes, hotels and tourism,

paperboards and packaging and printing. A turnaround strategy was adopted for the speciality paper business. Triveni Tissues while the financial services and agri-business were to be divested.

4. Pidilite Industries, the maker of Fevicol adhesives, contemplated expansion by related diversification through extentionof its product portfolio across three business segments: adheives and sealants, construction paints and chemicals, and art materials. It divested its speciality chemical business and acquired Seal from the Mahindras.
5. The combination grand strategy is followed when an organization adopts a mixture of stability, expansion and retrenchment either at the same time in its different businesses, or at different times in the same business with the aim of improving its performance.Any combination strategy is the result of a serious attempt on the part of strategist to take into account the variety of environment and organizational factors that affect the process of strategy formulation. Complicated situations generally require complex situations. Combination strategies are the complex situations that strategists have to offer when faced with thr difficulties to real life business.

6. A Paint company augments its offering decorative paints to provide a wider variety to its customers and expands its product range to include industrial and automotive paints, Simultaneously, it decides to close down the division which undertakes large-scale painting contract jobs(retrenchment).

3.5.1 Why Combination Strategies Adopted:

1. The organization is large and faces a complex environment.
2. The organization is composed of different businesses, each of which lies in a different industry requiring a different response.

4.0 Summary:

At the corporate level, firms can pursue various strategic alternatives to suit the requirements of the prevailing business environment. When the conditions are not favourable, the firms come out of the businesses by following the divestment, or liquidation strategies. In divestment strategy, the firms sell off the unprofitable businesses so that the resources can be gainfully employed. The firms remain in businesses, but concentrate on the profitable ones only. In liquidation strategy, the firms just sell off their assets and come out of business. Owing the wide spread effect of a business on the society, liquidation of a firm is regulated by the laws of the land. Often, the firms may chose a combination strategy, where more than two strategies are used simultaneously.

5.0 Self Assessment Questions:

1. What is meant by Retrenchment Strategies?
2. What are the different type of strategies under these corporate level strategies:
    i) Divestment
    ii) Liquidation
    iii) Combination
3. Explain the Divestment corporate level strategy?
4. Why Liquidation Strategies are difficult?
5. What are the different approaches can be adopted to a divestment Strategies?

6.0Suggested Readings:

1. Glueck, W F and L R Jauch, Business Policy and strategic Management

2. Hunger, J D and T L Wheelen, Strategic Management

3. Harrison J S and C H St John, Strategic management of organizations and Stakeholders

4. Thompson, A A Jr and A J Strickland III, Strategic Management – Concepts and Cases.

Paper: MBA-301 **Strategic Analysis**

Lesson No. 11 **Author : Dr. Tejinder Sharma**

Corporate Portfolio Analysis, Industry Analysis

Structure

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1.0 Introduction:

Corporate–level strategic analysis treats a corporate entity s constituting a portfolio of businesses under a corporate umbrella. The analysis focuses on the question of what should a corporate entity do regarding the several businesses that are there in its portfolio. The strategic alternatives here are basically the grand strategies of stability, expansion retrenchment and combination strategies have already been discussed. Corporate portfolio analysis techniques which form a major chunk of the analysis done at the corporate level.

2.0 Lesson Objectives:

This lesson is devoted to corporate portfolio and industry analysis.

3.0 Presentation of Contents:

3.1 Corporate Portfolio Analysis:

Corporate portfolio analysis is a set of techniques that evolved during the mid-1960s and soon became a management fad. During the 1970's a tendency to discredit these techniques arose when it was realized that the assumptions did not always hold good. However, currently it is accepted that these techniques are useful, not as purely prescriptive, but as an important and decisive part of a set of criteria-normative as well as descriptive-that assists strategies in exercising a strategic choice.

Corporate portfolio analysis could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or businesses in a firm's portfolio. It is primarily used for competitive analysis and corporate strategic planning in multi-product and multi business firms. They may also be used in less diversified firms, if these consist of a main business and other minor complementary interests. The main advantages in adopting a portfolio approach in a multi-product, multi-businesses firm is that resources could be channelized at the corporate level of those businesses that posses the greatest potential. For instance a diversified company may decide to divert resources from its cash-rich businesses to the more prospective ones which hold the promise of a faster growth so that the company can achieve its corporate level objectives in an optimal manner.

3.2 Boston Consulting Group Matrix:

There are a number of techniques that could be considered as corporate portfolio analysis techniques. The most popular is Boston Consulting Group (BCG) matrix or product portfolio matrix.

High	STARS	QUESTIONS High MARKS	Growth Rate
Low	CASH COWS	DOGS	

Relative market share

The BCG group matrix, such as the one shown in Exhibit provides a graphic representation for an organization to examine the different businesses in its portfolio on the basis of their relative market shares and industry growth rates. As in the exhibit, businesses could be classified on the BCG Matrix as either low or high according to their industry growth rate and relative market share. The vertical axis denotes the rate of growth in sales in percentage for a particular industry. The horizontal axis represents the relative market share, which is the ratio of a company's sales to the sales of industry's largest competitor or market leader. The low and high market share are separated by a vertical lines set at 1.0 This means that a company would have a relative market share of less than 1.0 if it does not have the largest share. A relative market share of more than 1.0 would occur for companies that are the largest sellers in their various industries. Still in order to get the maximum benefit out of the experience curve, the BCG Matrix indicates that it is necessary to be the market leader. The result of combining the industry growth rate and relative market share, each along a high and low dimension, is a four-cell matrix. Each cell of this matrix has been given an interesting and appropriate name by the BCG.

The four cells of the BCG matrix have been termed as stars, cash cows, question marks and Dogs. Each of these represents a particular type of businesses. These different types of businesses, with some contemporary examples from the Indian corporate world.

Stars:

Stars are high growth high market share businesses, which may or may not be self-sufficient in terms of cash flow. This cell corresponds closely to the growth phase of the PLC. A company generally pursues an expansion strategy to establish a strong competitive position with regard to a star business. In the current Indian context, there are many businesses which could be considered as “stars”.

Cash Cows:

As the term indicates, cash cows are businesses which generate large amounts of cash but their rate of growth is slow. In terms of PLC, these are generally mature businesses which are reaping the benefits of experience curve. The cash generation exceeds the reinvestment that could profitably be made into cash cows. These businesses can adopt mainly stability strategies. Where long-term prospects are exceptionally bright, limited expansion could be adopted. The cash cow industries lose their attractiveness and tend towards a decline, a phased retrenchment strategy may be feasible. The cash generated by cash cows is reinvested in stars and question marks. Companies are well entrenched in an established market enjoy the advantages of cash cows.

Question Marks:

Businesses with high industry growth but low market share for a company are question marks or problem children. They require large amount of cash to maintain or gain market share. Question marks are usually new products or services which have a good commercial potential. The logic of the experience curve dictates that the company obtaining an early lead can expect cost advantages and market leadership and can successfully create entry barriers. No single set of strategies can be recommended here. If the company feels that it can obtain a dominant market share, it may select expansion strategies otherwise retrenchment may be a realistic alternative. Question marks may become stars if enough investment is made, or they may dogs if ignored. There are several industries in India where many companies find themselves holding businesses which are question marks.

Dogs:

Those businesses, which are related to slow-growth industries and where a company has a low relative market share, are termed as dogs. They neither generate nor require large amounts of cash. In terms of PLC, the dogs are usually product in late maturity or a decline stage. The experience curve for the company shows that it faces cost disadvantages owing to a low market share. The only possibility for the company could be to gain market share at the expense of rival firms, a possibility that is remote owing to the high costs involved. So, retrenchment strategies are normally suggested, but government policies may prevent retrenchment and the dogs may be artificially sustained, which explains the presence of many products in Indian markets which would fade away if left on their own.

As seen from the above description of the BCG Matrix, it is clear that the major advantage is that it offers a facility for a visual examination of the portfolio of the businesses of a company. However, there are some limitations too which arise from the assumptions on which the BCG matrix is based. For instance, the growth rate of an industry is taken as an indicator of its attractiveness and its market share for profitability. Both these assumptions might not always be true.

Further, there are practical difficulties in measuring the respective market shares or deciding who the market leaders are. Lastly, most critics consider the BCG approach too simplistic. With these limitations in view, many other approaches and techniques of corporate portfolio analysis have been proposed.

3.3 Overall Assessment of Corporate portfolio Analysis:

Corporate portfolio analysis can help companies that are running diverse businesses to develop feasible strategic alternatives and to allocate resources among them. Other benefits include a more perceptive understanding of businesses, which leads to better strategic decisions, and the availability of an interesting vocabulary and graphic aids for communication.

Like all analytical techniques, portfolio analysis has its drawbacks. Problems arise in measuring parameters like the actual growth rate of a business. There are also organizational and motivational problems arising due to the adoption of recommendations emerging out of portfolio analysis. Hill and Jones point out four major flaws of the portfolio techniques. Firstly, an assessment of businesses in term of only the two dimensions of market share and industry growth can be misleading as a number of other factors need to be taken into accounts. Secondly, the relation between relative market share and cost saving is not directly proportional: companies with a low market share and which are focused on a market niche could have a low operations cost. Thirdly, a high market share in low-growth industry dose not necessarily result in a large cash flow. Lastly, none of the portfolio techniques treat the source of value creation from diversification strategies. SBUs just cannot be treated as independent units as they are linked to the corporate headquarters, and share skills and competencies. Real value may be derived from managing a diversified portfolio of businesses successfully rather than just putting together the right portfolio businesses.

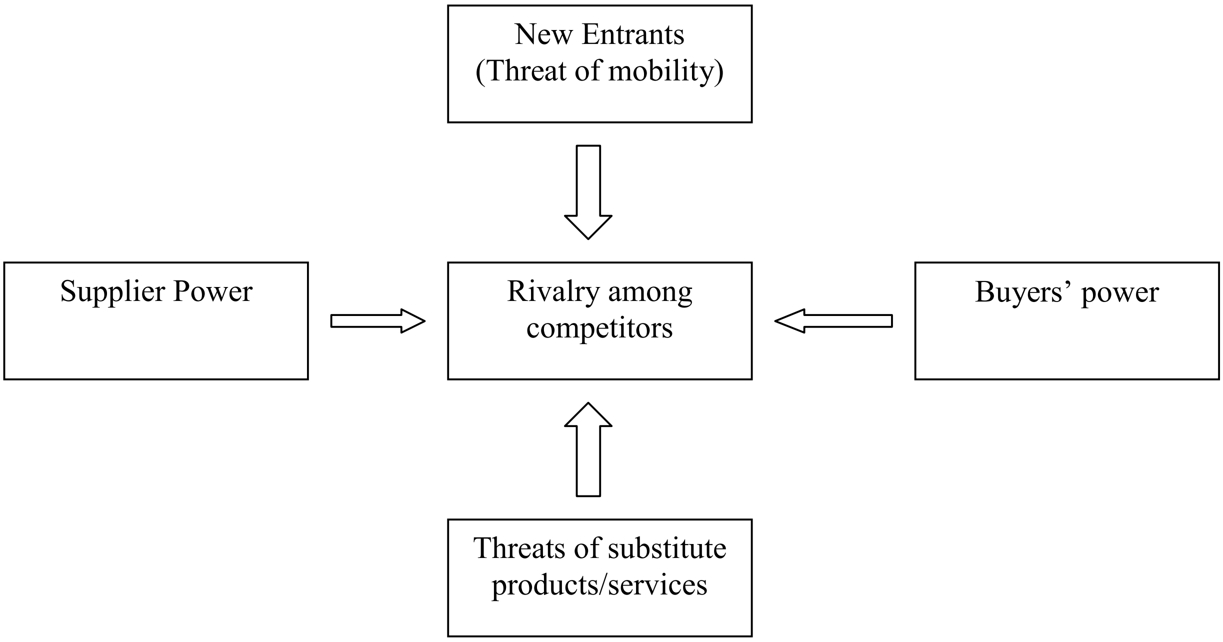
No organized evidence is available regarding the use and application of portfolio analysis techniques among Indian organizations. Research studies on corporate planning in Indian companies, though dealing with several issues, fail to take cognizance of the use of portfolio models do provide a powerful analytical tool and could be appropriately adapted to suit the Indian context. For instance, companies could take into account the governmental priorities and rate different businesses in their portfolio along the priority dimension. Whenever the businesses rate high in terms of governmental priorities, they may be considered high potential businesses and vice-versa. The priority dimension may be used along with the other dimensions of product market evolution or competitive position. However what is being suggested lies in the realm of conjecture, and empirical evidence is needed first to establish the suitability of the portfolio models in the Indian context.

3.4 Industrial Analysis:

An Industry is defined as a group of companies offering products or services that are close substitutes of each other. The close substitutes are those products or services that satisfy the same basic customer needs. For example, tea is a close substitute of coffee as it is considered a healthier alternatives with a lower caffeine content, and its antioxidant properties help the body to develop resistance to cancer and heart disease. Any analysis of the tea or coffee industry would have to consider the other stimulant as a close substitute.

Michael E Porter has made an immense contribution to the development of the ideas of industry and competitor analysis, and their relevance to the formulation of competitive strategies. He advocates that a structural analysis of industries be made so that a firm is in a better position to identify its strengths and weaknesses. A model consisting of five competitive forces has been proposed- threat of new entrants, rivalry among competitors, bargaining power of suppliers, bargaining power of buyers and threat of substitute products- that determine the intensity of industry competition and profitability.

3.4.1 Porters Five –Forces Model of competition in an Industry :



Micheal E Porter has given the famous five-force model to explain the competition. These forces determine the intrinsic long-run profit attractiveness of a market or a market segment. These forces are shown in the above model.

Threat of new entrants:

Any industry that is perceived as being profitable tends to attract new entrants. These new entrants are the firms that are interested in investing in the industry to share the growth prospectus. Such new entrants augment the existing production capacity and often posses a desire to make large investments and secure a substantial market share. The existing firms have to either share a growing market with a larger number of competitors, or part with some of their own market share to the new entrants. Either way, new entrants cause a comparatively lesser sales volume and revenue, and lower the returns for all the firms in the industry.

The chances that new entrants will enter into an industry depend on two factors- the entry barriers to an industry, and the expected retaliation from existing firms. Of these entry barriers are significant demotivators for new entrants. The concept of entry barriers implies that there are substantial costs involved in entering into a new industry. The higher the entry barriers in an industry the less likely are new entrants to enter that industry. So, higher entry barriers serve to keep out potential entrants away from an industry.

The entry barriers may arise as a consequence of several factors such as those given below:

i) Economics of scale in production and sale of products leading to lower costs for existing firms.

ii) Capital requirements being very high may prevent new entrants from making investments.

iii) Switching costs from the existing products or services to a new one may discourage customers from making new commitments owing to the costs incurred in buying new ancillary equipment, retraining employees or establishing new networks of relationship.

iv) Product differentiation by existing firms based on the distinctiveness perceived by the customers through effective advertising, reputation as a service provider the brand loyalty of customer towards existing firms or some other such factor.

Besides the entry barriers the expected retaliation towards the new entrants from the existing firms may be a potential treat to entry. Any potential entrants to an industry would have to predict the likely moves that the existing firms could make.

Rivalry among Competitors:

Competition is normally a game in which one player loses at the expense of the other. A move on the part of a player may cause other players to make countermoves, or initiate efforts to protect themselves from the danger posed by the initial move. In this manner, firms with in an industry are mutually dependent. The situation in an industry keeps changing with the actions and reactions of the constituent firms. The desire to be the market leader or to corner a larger market share leads to rivalry among competitors. The extent of the rivalry among competitors in an industry affects the competition with in that industry. When the rivalry is weak, there is likely to be lesser competition; when the rivalry is high the level of competition is higher. This has implications for existing firms as well as those firms contemplating an entry into the industry.

The dimensions of such rivalry among competitors are several. Some of the major ones are described below:

i) Competitive structure refers to the number of competitors, their size and their diversity. Different types of competitive structures have different implications for the existing firms and for the new entrants. Structures vary from being fragmented to consolidated. A fragmented structure mean that there are a large number of small or medium sized companies, none of them in a position to dominate the industry.

ii) Demand Conditions refer to the nature of the customer demand existing in an industry. A high demand or a growing demand tends to moderate competition as each firm has enough for itself and need not grab it from others. Stagnant demand may lead to competitive strategies designed to snatch the market share from others. Declining demand may cause companies to maintain the market share, Existing firms or new entrants need to consider the demand conditions in the industry for the purpose of formulating business strategies.

Bargaining Power of buyers:

The bargaining power of buyers of firms in an industry constitutes the ability of the buyers, individually or collectively, to force a reduction in the prices of products or services , demand a higher quality or better service, or to seek more value for their purchases in any way. A high buyer bargaining power constitutes a negative feature for existing firms or new entrants of an industry. A low buyer bargaining power enables a firm to pass on cost increases to buyers or to make the buyers accept a lower quality of product and service at a higher price.

The bargaining power of buyers is high under these conditions:

i) When the buyer are few in number

ii) When the buyers place large orders.

iii) When alternative suppliers are present and are willing to supply at a lower price or on favourable selling conditions

iv) When the switching costs of buyers from one supplier to other is low.

v) When the buyer itself charges a low price for its products and sensitive to price increase

vi) When the purchased product constitutes a high percentage of buyers costs making it look around for lower-priced supplies

vii) When the buyer itself has the ability to integrate backwards and create its own captive supply source.

Bargaining power of Suppliers:

Like the bargaining power of buyers suppliers to firm in an industry too have a level of bargaining power. The bargaining power of suppliers constitutes their ability, individually or collectively, to force an increase in the price of the products and services or make the buyer accept a lower quality of product or level of services. A high supplier bargaining power constitutes a negative feature for existing firms or new entrants of an industry. A low supplier bargaining power enables a firm to negotiate price increases in its favour or to make the suppliers offer high quality of inputs at a lower price.

The bargaining power of suppliers is high under these conditions:

i) When the suppliers are few and the buyers are many
ii) When the products or services are unique and not commonly available
iii) When the substitutes of the products or services supplied are not freely available
iv) When the switching costs of a supplier is not critically dependent on the products or services supplied

v) When the buyer buys in small quantities and therefore is not important to the supplier

vi) When the supplier have the ability to integrate forward and use their own supplies for production of the end product or service.

Threats of Substitute products:

Substitute products or services are those that apparently are different but satisfy the same set customer needs. We referred to the example of tea and coffee as substitute products. We could also include aerated drinks as another form of substitute in the category of products serving the customer's needs for drinks. Other examples could be alternative modes of transportation, postal, fax and courier services. The platform for substitutability in every case is serving the customer's need.

The availability of close substitutes constitutes negative competitive forces in an industry. In other words, those industries which have no close substitutes are more attractive than those that have one or more of such substitutes. Obviously firms in an industry having no close substitutes can charge a higher price and earn higher returns. For industries where close substitutes are available the level of price chargeable is restricted by the price of substitute available. Thus firm have to formulate their business strategies keeping in view the intensity of the competitive forces arising out of the presence or absence of the threat of substitutes.

4.0 Summary:

Corporate portfolio analysis is an important tool for analyzing the competitive situation of an industry and helps the firms to formulate the appropriate response strategies. The popular BCG matrix has been a pioneer attempt to classify the business on the basis of their growth rate and market share. The businesses that lie in the high growth high market share segment need to be sustained, while the firms need to come out the ones where they have a low market share and the growth rate is also low. Porter's model of competition is also a useful tool to analyse the forces that determine the competition in an industry. Understand the nature and power of these forces ca help the managers to formulate the appropriate competitive strategy that fits into the situation.

5.0 Self Assessment Questions:

1. Explain the strategic implications of each of the following types of business in a corporate portfolio:
   i) Stars

ii) Question marks

iii) Cash cows

iv) Dogs

2. What are the five forces affect the industry structure?
3. What do you mean by Corporate Portfolio Analysis?
4. Give brief explanation on Industrial Analysis?
5. What steps will require for overall corporate portfolio Analysis?

6.0 Suggested Readings:

1. Glueck, W F and L R Jauch, Business POLICY AND Strategic Management

2. Campbell, A,M Goold and M Alexender , Corporate Level Strategy: Creating value in the multibusiness Company

3. Porter, M E Competitive Strategy- Techniques for Analyzing Industries and Competitors

4. Miller A and G G D ess, Strategic Management

Paper: MBA-301 **Strategic Analysis**

Lesson No. 12 **Author: Dr. Tejinder Sharma**

Competitor Analysis, Subjective Factors in Strategic Choice

1.0 Introduction

2.0 Lesson Objectives

3.0 Presentation of Contents

3.1 Components of Competitor Analysis

3.2 Subjective Factors in Strategic Choice

3.3 Considerations for governmental Policies:

3.4 Perception of CSFs and Distinctive Competencies:

3.5 Commitment to Past Strategic Actions:

3.6 Strategist's Decision Style and Attitude to risk:

4.0 Summary

5.0 Self Assessment Questions

6.0 Suggested Readings

1.0 Introduction:

While industry analysis and strategic group analysis focus on the industry as a whole or on subsets of firms with an industry, competitor analysis focuses on each company with which a firm competes directly. Competitor analysis, therefore, deals with the actions and reactions of individual firms within an industry or strategic group. It becomes specially important in the case of oligopolistic industries where there are a few powerful competitors and each needs to keep track of the strategic moves of the others.

Porter has observed that the purpose of conducting a competitor analysis is to determine each competitor's probable reaction to the industry and environmental changes, anticipate the response of each competitor to the likely strategic moves by the other firm, and develop a profile of the nature and success of the possible strategic changes each competitor might undertake.

2.0 Lesson Objectives:

This chapter explains competitor analysis and the subjective factors underlying the strategic choice.

3.0 Presentation of Contents:

3.1 Components of Competitor Analysis:

A competitor response profile can be built on the basis of the four components of competitor analysis. These four components are: future goals of competitor, its current strategy, the key assumptions that the competitors makes about itself and about the industry, and its capabilities in terms of strengths and weaknesses. We briefly describe each of these components here in terms of the questions that need to be posed to describe them.

(i) Future goals of competitor deals with questions such as these:

How do our goals compare to our competitor's goal? Where will emphasis be Placed in the future? What is the attitude towards risk?

(ii) Current strategy of competitor deals with questions such as these:

How are we currently competing? Does this strategy support changes in the competition structure?

(iii) Key assumption made by the competitor deal with questions such as these:

Do we assume that the future will be volatile? Are we operating under a status quo? What assumptions do our competitors hold about the industry and about themselves?

(iv) Capabilities of competitor deal with questions such as these:

What are our strengths and weaknesses? How do we rate compared to our competitors?

Based on a through analysis of these components, a response profile can be prepared for each competitor that can help predict their likely strategic moves which can be either of an offensive or defensive type. The response profile could be based on a firm posing questions such as these to itself: What will our competitors do in the future? Where do we hold an advantage over our competitors? And how will this change our relationship with our competitors? The information collected in the response profile is a vital input for the purpose of business strategy formulation by any organization.

It must be noted that the approach outlined above is highly structured and systematic one and can be used profitably where competition is an important consideration in strategic choice. In India, competition is not new to industry but it has been particularly pronounced after the successive liberalisation measures taken by the government after 1984, and particularly after 1991. Supply has exceeded demand in industries and companies have overhauled their marketing strategies to be able to compete well in the market. The case of two wheeler and four-wheeler industries are illustrations of the changing scenario of competitiveness. Waiting lists for scooters and cars were a common phenomenon a few years ago but now these days market have become very highly competitive. Another case is of the FMCG industry in general, where competitiveness in several sub sectors such as soaps and detergents, cosmetics bakery and confectionery products, and others has increased by leaps and bounds. It is in such a scenario that competitor analysis become relevant.

Refer back to Porter's five forces analysis of the Indian paints industry and note that the level of competition has increased. Looking to the moves and countermoves of the top two companies it is observed that Asian Paints dominated the decorative paints segment of the paints industry in India with a market share of 40 percent. Goodlass Nerolac was the market leader in the industrial paints segment with a 45 percent market share. Generally the companies in the Indian paints industry were attempting to create a balance among the two segments so that they did not face the extreme demand fluctuations of either of the two segments. Goodlass Nerolac's change of business strategy by refocusing on the decorative paints segment in order to take advantage of its brand value can be seen in this context. This move constituted a competitive threat to others, specially Asian Paints among the two, Asian paints was stronger in terms of cost reduction, marketing and distribution infrastructure, and global reach.

There is very less information available regarding the means adopted by companies to keep track of their competitors. But many executives and industrialists admit that they do rely on their marketing intelligence system to collect information regarding the probable strategic moves of their competitors.

Competitor analysis is important because competitive forces shape the strategies adopted by rivals and because these strategic of rival firms, in turn, shape the competitive forces. It is useful for a firm if it takes the results of competitor analysis into account while exercising a strategic choice. Competitive Analysis aims at developing insightful answers to seven question:

1. What are the Industrial dominant economic features?
2. What is competitive like and how strong are each of the competitive forces?
3. What is causing the industry's competitive structure and business environment to change?
4. Which companies are in the strongest positions?
5. What strategic moves are rivals likely to make next?
6. What are the key factors for competitive success?
7. Is the industry attractive and what are the prospects for above average profitability?

3.2 Subjective Factors In Strategic Choice:

It is widely accepted that the strategic decision-making is a complex activity. None was set of factors can be sufficient for exercising a strategic choice. How strategists actually make a choice among several alternatives strategies has been a subject of considerable interest to researchers in management in general and business policy, in particular. We are specially concerned about the subjective factors in strategic choice. Subjective factors are essentially intuitive and descriptive in nature. Not many cut and dried analytical models can be used. But this does not mean that the subjective factors are irrational or non-analytical. Rather, they attempt to consider many of the issues that cannot and probably should not, be dealt with in the application of analytical models.

We identify six types of Subjective factors that are discussed further in this section:

- Considerations for governmental policies
- Perception of CSFs and distinctive competencies
- Commitment to past strategic actions
- Strategist's decision styles and attitude to risk
- Internal political consideration
- Timing and competitor considerations

3.3 Considerations for governmental Policies:

A significant feature of the Indian economy is that despite a series of liberalization measures initiated since 1991, it still remains centrally planned and regulated. State intervention in business is very evident. Strategists with in organizations are aware of the crucial role that the government plays insetting down policies and priorities. In fact, in several cases government policies are the deciding factor : a shift in policies can have a significant impact on the future prospectus of companies. Strategic alternatives considered by companies have to be seen in the context of governmental policies. Expansion, retrenchment, or liquidation types of corporate strategies can only be feasible if governmental policies act as a major subjective factor in screening alternatives.

Multinational companies in India, such as HLL and ITC ltd, acknowledge that the strategic choices made by them have been dictated by "national industrial and economic policies formulated by Government". Change in government either at central or state levels, is of much significant to industrialists as they are concerned about the shift in policies and priorities, and likely impact this would have on business. Annual reports by chairmen of companies invariably devote a lot of attention to the government's policies and their impact on different industries and businesses. In this manner, it can be seen that consideration to governmental policies and priorities is one of the most important subjective factor that strategists take into account while exercising a strategic choice.

3.4 Perception of CSFs and Distinctive Competencies:

CSFs and distinctive competencies are important issues in environmental and organizational appraisal. How these are perceived by strategists make them important subjective factors in strategic choice. While considering several strategic alternatives, strategists could be guided by the distinctive competencies that the organization possesses, and the CSFs that ensure success in an industry. The important thing is to focus on the extent of match that exists between the competencies and the CSFs When firms choose from among strategic alternatives, it makes them enter certain industries. These industries have their own CSFs respectively. If its distinctive competence can lead an organization to build its strategy around the CSFs then success is more likely. For instance, if the CSFs in a particular industry are : low-cost production, ensured raw materials supply, and the quality of the after-sales service, then an organization can evaluate itself on these bases and conclude whether it possesses significant strengths in these areas or not. If it does the alternatives of entering that industry is open, otherwise it should consider other alternatives. In this way, strategic choice can be guided by the perceptions that strategists have with regard to the match that exists between the CSFs and distinctive competencies.

3.5 Commitment to Past Strategic Actions:

It is rare that an organization completely breaks away from its past strategies and embarks upon a totally new course of action. Experience shows that they move in an incremental fashion. Called upon to exercise a strategic choice, strategists are more likely to start from where the organization is , and the way that it had adopted to reach where it was. In this way, the strategic choice is more likely to be for those alternatives which arise out of past strategic actions.

There is another practical reason why past strategic actions involve not only the formulation of particular strategies but also commitment in terms of resources and personnel. Having made a serious commitment, it is difficult to move to areas where existing resources and personnel become redundant. Therefore, strategists tend to eliminate the strategic alternatives that lead an organization too far away from its existing position. Only under pressing circumstances and an imminent threat from the environment does an organization move or is forced to move away from its existing position. This gives rise to another subjective factor in strategic choice, that is decision styles and attitude to risk.

3.6 Strategist's Decision Style and Attitude to risk:

The decision style adopted by strategists, particularly the CEO, and their attitude to risk is a determining subjective factor in strategic choice. It is of much interest to note that, given the same set of environment factors and identical organizational factors, two organizations may follow different strategic paths. One may act in an aggressive manner and adopt a proactive stance with regard to strategy formulation, while the other may act defensively and react to changes. The crucial variable responsible for the difference between the two approaches is the decision style and attitude to risk of the respective strategies.

There are several examples to show how individuals have had a far-reaching impact on strategic choice. Over the years, there have been industrialists, like Dhirubhai Ambani and his sons of the Reliance Group, Vijay Mallya of the UB Group who have adopted an aggressive posture and formulated expansion strategies. There are others who have acted conservatively and have not done well. A typical example of such a case is of the erstwhile successful, but now stagnant, business group of the Sarabhais. But risk aversion may not necessarily be detrimental to strategic interests.

Internal Political Considerations:

By internal considerations is meant the strategists interrelationship and power structure and balance. When strategy formulation is viewed as a political process strategists are viewed as a coalition of interests. A dominant CEO is able to affect strategic choice decisively. Where the CEO is perceived as weak or invites participation, interest groups or cliques emerge which affect the strategic choice process and try to make the process work in their favour. I t should be noted however that politics and the use of power are not necessarily bad. “Political behaviour in organizations is perfectly natural legitimate. Politics and power are neither good or bad. They are neutral. The main issue for the CEO is to see that they do not adversely affect the process of negotiations and support conditions that are necessary for strategic choice as such a choice determines where the resources of an organization will be allocated.

Timing and Competitor Considerations:

The time element and competitor considerations are another set of important subjective factors that influence strategic choice. Timing answers the following questions: When to exercise a strategic choice? When a particular strategic choice is to be made? For what time period is strategic choice to be made? A strategic choice has to be exercised when the strategists are sufficiently satisfied that all possible alternatives have been considered and the environmental analysis and diagnosis indicates that no other feasible alternatives are likely to emerge in the near future. A particular strategic choice say of related diversification could be made when no other alternatives is as attractive and the required strategic choice for instance stability strategy is for the short or long run. Short run strategic choice should be seen as a stop- gap arrangement before the organization moves on to a move permanent long-run strategy.

Competitor actions are also to be considered in strategic choice. We referred to this point in dealing with competitor analysis earlier in this chapter. If it is expected that a particular strategy would elicit an aggressive response, then it should only be chosen if the company is in a position to counteract. The timing of competitor action is also significant.

The leasing industry offers a good illustration of timing and competitor considerations in strategic choice. Welcomed with great enthusiasms, it attracted so many industrialists and businessmen, and banking and financial institutions that the provision of services exceeded the demand. The industry soon became highly competitive. Given this scenario, many successful companies had to diversify their operations. For examples, Apple Leasing and Industries ltd had diversified from leasing to computers and computer education. But it had firmly kept its major stake in leasing as according to law, it could have borrowed upto 10 times its net worth and pay little tax because of the high depreciation rates allowed. Obviously, the timing was not ripe for major strategic shifts. An alternatives was to have subsidiary to look after the hire purchase business and leave 50 percent to leasing and the balance 42 percent to computer related activities. There was the option to retrench the computer business internally but that would have left the company with lesser profits and investors attractiveness so necessary to maintain the sources of finance. Again, internal retrenchment strategies were not considered to be timely. Then there was the question of formidable competition in leasing as well as computer related activities. The result was that it started consolidation of activities and planned to enter the publication of computer related books.

4.0 Summary:

Analysing the competitors is an important function of all the strategies. The careful watch on the competitor moves can help a firm in offsetting the possible situations where it is caught unaware and it loses the market share. Several techniques have been developed for the competitor analysis. The choice of a strategic alternative is not always a mathematical calculation, but it is al;so influenced by several subjective factors, such as the government policies, perception of the top management and commitment to the past action. The decision making style of a strategist is also an important factor that can influence the choice of a particular strategy.

5.0 Self Assessment Questions:

1. What is the purpose of doing a competitor analysis?
2. Give two illustrations to show how government priorities can significantly affect the strategic choice made by Indian companies?
3. In what way can timing and competitor reaction be crucial for a strategic choice?
4. Why does the need for developing competitor strategies?
5. Exemplify how commitment to past strategic actions may restrict the strategic choice for a firm?

6.0 Suggested Readings:

1. Zahra, Shaker A., and Sherry S.Chaples." Blind Spots in Competitive analysis"

2. Linneman Robert E., and Harold Eklein. " Using Scenarios in Strategic Decision making"

3. Glueck, W F and L R Jauch, Business POLICY AND Strategic Management

4. Campbell, A,M Goold and M Alexender , Corporate Level Strategy: Creating value in the multibusiness Company

5. Porter, M E Competitive Strategy- Techniques for Analyzing Industries and Competitors